Notes to the Financial Statements

For the Fiscal Year Ended June 30, 1995

Note 1 - Summary of Significant Accounting Policies

The accompanying financial statements of the state of Washington have been prepared in conformity with generally accepted accounting principles (GAAP). The primary authority for the state's accounting and reporting requirements is the Office of Financial Management (OFM). OFM has adopted the pronouncements of the Governmental Accounting Standards Board (GASB) which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles nationally. For proprietary fund accounting and reporting, the state applies applicable pronouncements of the Financial Accounting Standards Board issued on or before November 30, 1989, unless those pronouncements conflict with or contradict the pronouncements of the GASB. The more significant of the state's accounting policies are as follows:

A. Reporting Entity

In evaluating how to define the state of Washington, for financial reporting purposes, management has considered: all funds, organizations, institutions, agencies, departments, and offices that are legally part of the state (the primary government); organizations for which the state is financially accountable; and other organizations for which the nature and significance of their relationship with the state are such that exclusion would cause the state's financial statements to be misleading or incomplete.

Financial accountability is manifest when the primary government appoints a voting majority of an organization's governing body and is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board. An organization is fiscally dependent if it is unable to determine its budget without another government having the substantive authority to approve or modify that budget, to levy taxes or set rates or charges without substantive approval by another government, or to issue bonded debt without substantive approval by another government.

Based on this criteria, the following are included in the financial statements of the primary government:

STATE AGENCIES - Except as otherwise described herein, all state elected offices, departments, agencies, commissions, boards, committees, authorities, and councils (agencies) and all funds and account groups of the state are included in the primary government. Executives of these agencies are either elected, directly appointed by the Governor, appointed by a board which is appointed by the Governor, or appointed by a board which is in part appointed by the Governor.

Additionally, a small number of board positions are established by statute or independently elected. The state Legislature created these agencies, assigns their programs, approves operational funding, and requires financial accountability. The Legislature also authorizes all bond issuances for capital construction projects for the benefit of state agencies. The legal liability for these bonds and the ownership of agency assets reside with the state.

COLLEGES AND UNIVERSITIES - The governing boards of the five state universities, the state college, and the 30 state community and technical colleges and districts (colleges) are appointed by the Governor. Each college's governing board appoints a president to function as chief administrator. The state Legislature approves budgets and budget amendments for the colleges' appropriated funds, which include the state's General Fund as well as certain capital projects funds. The state Treasurer issues general obligation debt for major campus construction projects. However, the colleges are authorized to issue revenue bonds for construction of facilities for certain revenue generating activities such as housing, dining and parking. These revenue bonds are payable solely from and secured by fees and revenues derived from the operation of constructed facilities; the legal liability for the bonds and the ownership of the college assets reside with the state. Colleges do not have separate corporate powers and sue and are sued as part of the state with legal representation provided through the state Attorney General's office. Since the colleges are legally part of the state, their financial operations, including their blended component units, are reported in the primary government financial statements using the fund structure prescribed by GASB, not discretely reported according to the fund structure of the American Institute of Certified Public Accountants college and university reporting model.

RETIREMENT SYSTEMS - The state of Washington, through the Department of Retirement Systems, administers five retirement systems for public employees of the state and political subdivisions: the Public Employees' Retirement System, the Teachers' Retirement System, the Law Enforcement Officers' and Fire Fighters' Retirement System, the Washington State Patrol Retirement System, and the Judicial Retirement System. The director of the Department of Retirement Systems is appointed by the Governor.

There are two additional retirement systems administered outside of the Department of Retirement Systems. The Volunteer Fire Fighters' Relief and Pension Fund is administered through the Board for Volunteer Fire Fighters' which is appointed by the Governor. The Judicial Retirement Account is administered through the Administrator for the Courts under the direction of the Board for Judicial Administration. The state Legislature establishes laws pertaining to the creation and administration of all public retirement systems. The participants of the public retirement systems together with the state provide funding for all costs of the systems based upon actuarial valuations. The state establishes benefit levels and approves the actuarial assumptions used in determining contribution levels.

All seven of the aforementioned retirement systems are included in the primary government's financial statements.

The following are discretely presented in the financial statements of the state in the component units column:

The WASHINGTON HEALTH CARE FACILITIES AUTHORITY, the WASHINGTON HIGHER EDUCATION FACILITIES AUTHORITY, and the WASHINGTON STATE HOUSING FINANCE COMMISSION (financing authorities) were created by and operate within laws established by the state Legislature. The primary purpose of the financing authorities is to issue nonrecourse revenue bonds to provide low cost capital financing for programs deemed to be in the public interest without using public funds or lending the credit of the state. These bonds do not constitute either a legal or moral obligation of the state or these financing authorities, nor do the state or these financing authorities pledge their faith and credit for payment of such bonds. Debt service on these bonds is payable solely from payments pursuant to loan agreements. The governing boards of the financing authorities include certain elected and appointed state officials, and one or more additional members appointed by the Governor. The financing authorities are presented as discretely reported component units of the state. Financial reports of these financing authorities may be obtained from each authority at the following addresses:

Washington Health Care Facilities Authority
1212 Jefferson Street SE, Suite 201
PO Box 40935
Olympia, WA 98504-0935

Washington Higher Education Facilities Authority,
Washington State Housing Finance Commission
1000 2nd Avenue, Suite 2700
Seattle, WA 98104-1046

B. Basis of Presentation - Fund Accounting

The state uses approximately 504 accounts which have been administratively combined into 49 funds and 2 account groups. The state uses these funds and account groups to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Funds are classified into three categories: governmental, proprietary, and fiduciary. Each category, in turn, is divided into separate "fund types." State transactions are recorded in the fund types and account groups described below:

<u>Governmental Funds</u>
Governmental funds are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (special revenue funds), the acquisition or construction of general fixed assets (capital projects funds), and the servicing of general long-term obligations (debt service funds). The General Fund is used to account for activities of the general government not accounted for in some other fund.

<u>Proprietary Funds</u>
Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies primarily within the governmental unit (internal service funds).

<u>Fiduciary Funds</u>
Fiduciary funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the governmental unit.

When these assets are held under the terms of a formal trust agreement, either a pension trust fund, a nonexpendable trust fund, or an expendable trust fund is used. The terms "nonexpendable" and "expendable" refer to whether or not the government is under an obligation to maintain the trust principal. Agency funds are generally used to account for assets that the government holds on behalf of others as their agent.

Account Groups

The General Fixed Assets Account Group accounts for all fixed assets of the state other than those accounted for in proprietary and similar trust funds. The General Long-Term Obligations Account Group accounts for the unmatured principal of the state's general obligation bonds and other long-term obligations of governmental and expendable trust funds.

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary, nonexpendable trust, and pension trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations of these funds are included on the balance sheet. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in equity (i.e., net total assets). Equity in proprietary funds is segregated into contributed capital and retained earnings components. Equity for nonexpendable trust and pension trust funds is shown as reserved for nonexpendable trust corpus and reserved for retirement systems, respectively.

The modified accrual basis of accounting is used by all governmental, expendable trust, and agency funds. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Major revenues that are determined to be susceptible to accrual include sales and business and occupation taxes, federal grants-in-aid, and charges for services.

Revenues from property taxes are determined to be available if collected within 60 days. Excise taxes, motor fuel taxes, and unemployment compensation contributions are considered measurable when the return is received. Sales taxes are accrued if collectible within one year. Revenue for timber cutting contracts is accrued when the timber is harvested. Revenues from licenses, permits, and fees are recognized when received in cash. Revenue related to expenditure driven grant agreements is recognized when the qualifying expenditures are made. All other accrued revenue sources are determined to be available if collectible within 12 months.

Property taxes are levied in December for the following calendar year. The first half year collections are due by April 30, and the second half year collections are due by October 31. Since the state is on a fiscal year ending June 30, the first half year collections are recognized as revenue, if collected within 60 days of the fiscal year end. The second half year collections are recognized as receivables offset by deferred revenue. The lien date on property taxes is January 1 of the tax levy year.

Under modified accrual accounting, expenditures are recognized when the related fund liability is incurred. Exceptions to the general modified accrual expenditure recognition criteria include principal and interest on general long-term indebtedness which are recognized when due and compensated absences which are recognized when paid.

All proprietary, nonexpendable trust, and pension trust funds are accounted for using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when they are earned and expenses are recognized when incurred.

The state reports deferred revenues on its balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and the "available" criteria for revenue recognition in the current period. Deferred revenues also arise when resources are received by the state before it has a legal claim to them, such as when grant monies are received prior to the incurrence of qualifying expenditures.

D. General Budgetary Policies and Procedures

The Governor is required to submit a budget to the state Legislature no later than December 20 of the year preceding odd-numbered year sessions of the Legislature. The budget is a proposal for expenditures in the ensuing biennial period based upon anticipated revenues from the sources and rates existing by law at the time of submission of the budget. The Governor may additionally submit, as an appendix to the budget, a proposal for expenditures in the ensuing biennium from revenue sources derived from proposed changes in existing statutes.

The appropriated budget and any necessary supplemental budgets are legally required to be adopted through the passage of biennial appropriation bills by the Legislature and approved by the Governor. Biennial operating appropriations are generally made at the fund/account and agency level, however, in a few cases, biennial appropriations are made at the fund/account and agency/program level. Biennial capital appropriations are generally made at the fund/account, agency, and project level.

The legal level of budgetary control is at the fund/account, agency, and appropriation level, with administrative controls established at lower levels of detail in certain instances. The accompanying "Combined Statement of Revenues, Expenditures, and Other Financing Sources (Uses) - Budget and Actual - All Governmental Fund Types" ("Governmental Budgetary Statement") is not presented at the legal level of budgetary control. This is due to the large number of appropriated fund/accounts and appropriations within agencies that would make such a presentation in the accompanying financial statements extremely cumbersome. Section 2400.112 of the GASB Codification of Governmental Accounting and Financial Reporting Standards provides for the preparation of a separate report in these extreme cases. For the state of Washington, a separate report has been prepared for the 1993-1995 Biennium to illustrate legal budgetary compliance. Appropriated budget versus actual expenditures, and estimated versus actual revenues and other financing sources (uses) for appropriated funds at the fund/account, agency, and appropriation level are presented in Report MFS1054 for governmental funds. A copy of this report is available at the Office of Financial Management, 406 Legion Way S.E., PO Box 43127, Olympia, Washington 98504-3127.

Biennial legislative appropriations are strict legal limits on expenditures/expenses, and overexpenditures are prohibited. All appropriated and nonappropriated/allotted funds are further controlled by the executive branch through the allotment process. This process allocates the expenditure/expense plan into monthly allotments by program, source of funds, and object of expenditure. According to statute RCW 43.88.110(2), except under limited circumstances, the original biennial allotments are approved by the Governor and may be revised only at the beginning of the second year of the biennium and must be initiated by the Governor. Because allotments are not the strict legal limit on expenditures/expenses, the budgetary statements displayed in the accompanying financial statements are shown on an appropriation versus actual comparison rather than an allotment versus actual comparison.

Proprietary funds earn revenues and incur expenses (i.e., depreciation or budgeted asset purchases) not covered by the allotment process. Budget estimates are generally made outside the allotment process according to prepared business plans. These proprietary fund business plan estimates are adjusted only at the beginning of each fiscal year.

Additional fiscal control is exercised through various means. OFM is authorized to make expenditure/expense allotments based on availability of unanticipated receipts, mainly federal government grant increases made during a fiscal year. State law does not preclude the over expenditure of allotments, although, RCW 43.88.110(3) requires that the Legislature be provided an explanation of major variances.

Appropriations and operating encumbrances lapse at the end of the biennium. Capital outlay encumbrances lapse unless reappropriated by the Legislature in the ensuing biennium. Encumbrances outstanding at fiscal year end are reported as reservations of fund balance.

Budgetary Reporting versus GAAP Reporting

Governmental funds are budgeted materially in conformance with GAAP. However, the presentation in the accompanying "Governmental Budgetary Statement" is different in certain respects from the "Combined Statement of Revenues, Expenditures, and Changes in Fund Balance - All Governmental Fund Types" ("Governmental Operating Statement"). In the accompanying "Governmental Budgetary Statement," budget and actual expenditures are reported only for appropriated activities and are classified based on whether the appropriation is from the operating or capital budget. Expenditures funded by operating budget appropriations are reported as current expenditures classified by the function of the agency receiving the appropriation. Expenditures funded by capital budget appropriations are reported as capital outlays. However, in the accompanying "Governmental Operating Statement," all governmental funds are included and expenditures are classified according to what was actually purchased. Capital outlays are fixed asset acquisitions such as land, buildings, and equipment. Debt service expenditures are principal and interest payments. Current expenditures are all other governmental fund expenditures classified based on the function of the agency making the expenditures. Additionally, certain activities are excluded from the "Governmental Budgetary Statement" because they are not appropriated. These activities include: funds designated as nonappropriated by the Legislature, federal surplus food commodities, capital leases, note proceeds, and resources collected and distributed to other governments. Further, certain operating transfers are appropriated as expenditures. These transfers are reported as expenditures in the "Governmental Budgetary Statement" and as operating transfers in the "Governmental Operating Statement." The difference in the amount "Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses" is caused by two main factors: note and loan activity as explained in Note 2, "Budgetary Accounting, Reporting, and Compliance;" and nonappropriated governmental fund activities.

E. Cash Equivalents and Investments

Investments of surplus or pooled cash balances, considered cash equivalents per GASB Statement 9, are reported on the accompanying Balance Sheet and Statement of Cash Flows as "Cash and pooled investments." These cash equivalents are recorded at cost, which approximates fair market value. The Office of the State Treasurer invests state treasury cash surpluses where funds can disburse cash at any time without prior notice or penalty. As a result, the cash balances of the funds are not reduced for these investments.

The method of accounting for noncurrent investments varies depending upon the fund classification. Deferred Compensation Plan and Pension Funds investments are reported at market value. Workers' Compensation equity securities are valued at market, and fixed income securities are valued at amortized cost. Unrealized gains and losses for Workers' Compensation equity securities are recorded in the fund equity section of the Balance Sheet, and gains and losses are recognized at the time of sale or disposition. Market values for the preceding funds are determined using closing market prices at year end for marketable securities and other reasonable methods for investments where market values are not readily available. All other funds value equity investments at cost and fixed income investments at amortized cost.

F. Receivables

Receivables in the state's governmental and fiduciary funds consist primarily of tax and federal revenues. Receivables in all other funds have arisen in the ordinary course of business. Receivables are recorded when either the asset or revenue recognition criteria (see Note 1.C) has been met.

G. Inventories

Consumable inventories, consisting of expendable materials and supplies held for consumption, are valued and reported for financial statement purposes if their annual balance on hand is estimated to exceed $25,000 in value. Consumable inventories are generally valued using the first-in, first-out method. All merchandise inventories are valued and considered reportable for financial statement purposes. Merchandise inventories are generally valued using the first-in, first-out method. Donated consumable inventories are recorded at fair market value.

Governmental and expendable trust fund inventories are valued at cost and are recorded using the consumption method. Inventory balances are also recorded as a reservation of fund balance indicating that they do not constitute "available spendable resources" except for $1.5 million in federally donated consumable inventories which are offset by deferred revenue because they do not constitute a fund resource until consumed.

Proprietary fund inventories are valued at the lower of cost or market and are expensed when used or sold.

H. Fixed Assets

Except as noted below, all fixed assets with a unit cost of $1,000 or greater are capitalized and reported in the accompanying financial statements. Fixed assets acquired by capital leases with a net present value or fair market value, whichever is less, of $10,000 or more are capitalized and also included in these financial statements.

All purchased fixed assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Fixed asset costs include the purchase price plus those costs necessary to place the asset in its intended location and condition for use. Normal maintenance and repair costs that do not materially add to the value or extend the life of the asset are not capitalized.

Donated fixed assets are valued at their estimated fair market value, plus all appropriate ancillary costs, on the date of donation. When the fair market value is not practically determinable due to lack of sufficient records, estimated cost is used. Where necessary, estimates of original cost and fair market value are derived by factoring price levels from the current period to the time of acquisition.

The value of assets constructed by agencies for their own use includes all direct construction costs and indirect costs that are increased by the construction. In proprietary and similar trust funds, interest costs (if material) incurred during the period of construction are capitalized.

Public domain (infrastructure) general fixed assets consisting of certain improvements other than buildings (including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, lighting systems, and similar assets) that are immovable and are of value only to the state are not capitalized. Streets, sidewalks, lighting systems, and similar assets located on college and university campuses, which predominately benefit college and university activities, are capitalized.

Fixed assets in governmental and expendable trust funds are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and related assets (including construction projects not completed at the end of the accounting period) with the following characteristics are reported in the General Fixed Assets Account Group:

a. Acquired for the production of general government services, not for the production of services that are sold.
b. Have a life expectancy of more than one year.
c. Have a unit cost of $1,000 or greater.

Depreciation expense of general fixed assets is not recorded in the activity statements of governmental and expendable trust funds. Accumulated depreciation is recorded in the General Fixed Assets Account Group and is included in the financial statements as a "Memo Only" entry. Depreciation is calculated using the straight-line method with estimated useful lives of fifty years for buildings, and five to fifty years for furnishings and equipment, other improvements, and miscellaneous fixed assets. General fixed assets are removed from the General Fixed Assets Account Group at the time of disposal.

Fixed assets used in proprietary and similar trust funds are accounted for in the fund in which they are utilized. Depreciation is computed using the straight-line method. Buildings are depreciated using estimated useful lives extending to fifty years. Furnishings and equipment, other improvements, and miscellaneous fixed assets are depreciated using estimated useful lives of five to fifty years. The cost and related accumulated depreciation of fixed assets retired from service or disposed of, are removed from the accounting records.

I. Compensated Absences

Annual Leave

State employees accrue vested annual leave at a variable rate based on years of service. In general, accrued annual leave cannot exceed 30 days at the employee's anniversary date. It is the state's policy to liquidate unpaid annual leave at June 30 from future resources rather than currently available expendable resources. Accordingly, governmental and expendable trust funds recognize annual leave when it is paid. A long-term liability of $170.9 million for the accumulated annual leave and related payroll taxes and benefits in governmental and expendable trust funds has been recorded in the General Long-Term Obligations Account Group as of June 30, 1995. Proprietary and similar trust funds recognize the expense and accrued liability when the annual leave is earned. An accrued liability for accumulated annual leave, including related payroll taxes and benefits, has been recorded in Enterprise Funds for $22.2 million and $12.6 million in Internal Service Funds as of June 30, 1995.

Sick Leave

Employees accrue sick leave at the rate of one day per month without limitation on the amount that can be accumulated. Sick leave is not vested; i.e., the state does not pay employees for unused sick leave upon termination except upon employee death or retirement. At death or retirement, the state is liable for 25 percent of the employee's accumulated sick leave. In addition, the state has a "sick leave buyout option" in which each January, employees who accumulate sick leave in excess of 60 days may redeem sick leave earned but not taken during the previous year at the rate of one day's pay in exchange for each four days of sick leave. It is the state's policy to liquidate unpaid sick leave at June 30 from future resources rather than currently available expendable resources. Accordingly, governmental and expendable trust funds recognize sick leave when it is paid. The state has recorded an estimated sick leave buyout liability, including related payroll taxes, for governmental and expendable trust funds of $78.3 million at June 30, 1995 in the General Long-Term Obligations Account Group. Proprietary and similar trust funds recognize the expense and accrue a liability for estimated sick leave buyout as sick leave is earned. As of June 30, 1995, a liability for estimated sick leave buyout, including related payroll taxes, has been accrued in Enterprise Funds for $8.7 million and in Internal Service Funds for $5.0 million.

J. Long-Term Obligations

Long-term obligations expected to be financed from resources to be received in the future by governmental and expendable trust funds are reported in the General Long-Term Obligations Account Group, not in the individual funds. Long-term obligations to be financed from proprietary and similar trust funds are recorded in the applicable funds rather than in the General Long-Term Obligations Account Group.

K. Fund Equity

Fund equity represents the difference between fund assets and fund liabilities. In governmental and fiduciary funds, fund equity is called "Fund Balance." Reserved fund balance represents that portion of fund balance that is: (1) not available for appropriation or expenditure, and/or (2) that is legally segregated for a specific future use. Unreserved, designated fund balance indicates tentative plans for future use of financial resources. Unreserved, undesignated fund balance represents the amount available for appropriation.

For proprietary funds, equity attributable to accumulated earnings is referred to as "Retained earnings." Equity classified as "Unrealized gain on investments" represents the difference between cost and market of certain investments held in the Workers' Compensation Fund. Equity provided by contributions from other funds and capital grants is classified as "Contributed capital."

L. Insurance Activities

Workers' Compensation
The state of Washington's workers' compensation program is established by Title 51 RCW. The statute requires all employers to insure payment of benefits for job related injuries and diseases through the Workers' Compensation Fund or through self-insurance. Direct private insurance is not authorized, although self-insurers are permitted to reinsure up to 80 percent of their obligations through private insurers.

The Workers' Compensation Fund is used to account for the workers' compensation program which provides time-loss, medical, disability, and pension payments to qualifying individuals sustaining work-related injuries. The main benefit plans of the workers' compensation program are funded based on rates that will keep these plans solvent in accordance with recognized actuarial principles. The supplemental pension cost of living adjustments (COLA) granted for time-loss and disability payments, however, are funded on a pay-as-you-go basis. By statute, the state is only allowed to collect enough revenue to fund the current COLA payments; assets are not allowed to accumulate for the future servicing of current or incurred but not reported (IBNR) claims.

The Workers' Compensation Fund establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been IBNR. The length of time for which such costs must be estimated varies depending on the coverage involved. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liabilities, claims adjudication, and judgments, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic, legal, and social factors. A provision for inflation in the calculation of estimated future claim costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

Risk Management
Washington state continues to operate a risk management liability program pursuant to RCW 4.92.130. The state manages its tort claims as an insurance business activity rather than a general governmental activity. The state's policy is generally not to purchase commercial insurance for the risk of losses to which it is exposed. Instead, the state management believes it is more economical to manage its risks internally and set aside assets for claims settlement in an Internal Service Fund. A limited amount of commercial insurance is purchased for employee bonds and to limit the exposure to catastrophic losses. Otherwise, the risk management liability program services all claims against the state for injuries and property damage to third parties. All funds and agencies of the state participate in the risk management liability program in proportion to the anticipated exposure to liability losses.

State Employees' Insurance
The state's health care benefits program is funded through a per capita amount determined annually by the Legislature and allocated to state agencies. The Health Care Authority, as administrator of the health care benefits program, collects this monthly "premium" from the agencies for each active employee enrolled in the program. The allocation represents a composite rate that covers the employee and all eligible dependents. The program also covers employees on extensions of coverage and retirees who self-pay their insurance premiums.

The state self insures or internally manages the risk of loss for the Uniform Medical Plan. Thirty-five percent of eligible subscribers were enrolled in this health care plan in Fiscal Year 1995. Claims are paid from premiums collected, and claims adjudication is contracted through a third-party administrator. Considerations in calculating liabilities include frequency of claims, administrative costs, industry inflation trends, advances in medical technology, and other social and economic factors. Liabilities include an amount for claims incurred but not reported.

M. Interfund Activities

Quasi-external transactions are accounted for as revenues, expenditures, or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

N. Totals (Memorandum Only) Columns

Totals columns on the general purpose financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis.

The data in these columns does not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Furthermore, this data is not comparable to a consolidation as interfund eliminations have not been made in the aggregation of this data.

Note 2 - Budgetary Accounting, Reporting, and Compliance

A. Biennial Budget

Budgeted amounts reported on the accompanying Combined Statement of Revenues, Expenditures, and Other Financing Sources (Uses) - Budget and Actual - All Governmental Fund Types ("Governmental Budgetary Statement") include approved appropriations for the 1993-1995 Biennium.

The following schedule details the approved budget by fund type (expressed in thousands):

	General	Special Revenue	Debt Service	Capital Projects	**Totals** (Memo Only)
Legislative Appropriations:					
Original	$ 23,073,150	$ 4,969,872	$ 1,099,243	$ 1,779,487	$ 30,921,752
Supplemental	294,289	(253,681)	(31,666)	(74,745)	(65,803)
Total Legislative Appropriations	$ 23,367,439	$ 4,716,191	$ 1,067,577	$ 1,704,742	$ 30,855,949

B. Reconciliation of Governmental Budgetary Statement to Governmental Operating Statement

The following is a reconciliation for Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses for all governmental fund types between the "Governmental Budgetary Statement" and the Combined Statement of Revenues, Expenditures, and Changes in Fund Balance - All Governmental Fund Types ("Governmental Operating Statement").

Certain transactions appear on the "Governmental Operating Statement" and not on the "Governmental Budgetary Statement," or conversely, appear on the "Governmental Budgetary Statement" and not on the "Governmental Operating Statement." Also, certain transactions appear differently on the "Governmental Operating Statement" and the "Governmental Budgetary Statement." These transactions are reconciled as detailed below:

BASIS ADJUSTMENTS - Loan disbursements are budgeted items and appear on the "Governmental Budgetary Statement." However, they do not appear on the "Governmental Operating Statement" because they represent increases of loan receivables and appropriately appear on the Combined Balance Sheet. Therefore, the Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses on the accompanying "Governmental Budgetary Statement" does not agree with the "Governmental Operating Statement." Certain operating transfers are budgeted as expenditures to allow the exercise of budgetary control. These operating transfers are reflected as expenditures on the "Governmental Budgetary Statement" in accordance with approved appropriations, but they are reflected as operating transfers on the "Governmental Operating Statement."

ENTITY ADJUSTMENTS - Certain funds designated as nonappropriated by the Legislature, resources collected and distributed to other governments, federal surplus food commodities, and notes and capital lease proceeds/acquisitions are not appropriated and do not appear on the "Governmental Budgetary Statement." Portions of the difference in the Excess of Revenues and

Other Sources Over (Under) Expenditures and Other Uses between the accompanying "Governmental Budgetary Statement" and the "Governmental Operating Statement" are caused by the funds designated as nonappropriated by the Legislature, and by expending note proceeds received in prior fiscal periods. The other entity adjustments do not cause differences in those statements because offsetting revenues and expenditures are excluded from the "Governmental Budgetary Statement" in each case.

The following schedule details the reconciling items between the "Governmental Budgetary Statement" and the "Governmental Operating Statement" by governmental fund type (expressed in thousands):

	General	Special Revenue	Debt Service	Capital Projects	**Totals** (Memo Only)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses (Budgetary Basis) for the Biennium Ended June 30, 1995	$ 264,324	$ 139,765	$ (323)	$ 25,281	$ 429,047
FY 1994 Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses (Budgetary Basis)	(263,590)	(63,003)	(4,901)	(60,172)	(391,666)
FY 1995 Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses (Budgetary Basis)	734	76,762	(5,224)	(34,891)	37,381
Basis Adjustments:					
Loan disbursements	49,745	1,152	-	-	50,897
Loan receipts	(20,299)	(988)	-	-	(21,287)
Current expenditures	491,929	109,000	-	375,607	976,536
Operating transfers (net)	(491,929)	(109,000)	-	(375,607)	(976,536)
Entity Adjustments:					
Revenues of nonappropriated funds	131,371	1,240,020	(11,352)	36,777	1,396,816
Expenditures of nonappropriated funds	(118,611)	(1,299,409)	-	(21,309)	(1,439,329)
Revenues collected for other governments	140,712	217,655	-	-	358,367
Revenues distributed to other governments	(140,712)	(217,655)	-	-	(358,367)
Federal surplus food commodities received	15,323	-	-	-	15,323
Capital leases proceeds	17,488	1,546	-	-	19,034
Note proceeds	2,790	1,989	-	107	4,886
Noncash commodities issued	(15,323)	-	-	-	(15,323)
Noncash capital acquisitions	(20,278)	(3,535)	-	(2,978)	(26,791)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses (GAAP Basis) for the Fiscal Year Ended June 30, 1995	$ 42,940	$ 17,537	$ (16,576)	$ (22,294)	$ 21,607

C. Budget Overexpenditures

Appropriations are legal limitations on agency expenditures subject to available fund balances. The biennial appropriation bill authorizes bond debt service expenditures in an amount sufficient to meet financing needs. There are no overexpenditures of appropriations on the accompanying "Governmental Budgetary Statement." However, there was one overexpenditure of appropriations during the 1993-1995 Biennium at the legal level of budgetary control. The Work Force Training and Education Coordinating Board, an agency operating out of the General Fund, overexpended a 1993-1995 Biennium appropriation by $3.4 million. The agency's fiscal management was in transition at the close of the biennium and, due to an oversight, an unanticipated receipts package that would have extended the legal spending limit was not submitted in a timely manner. While an appropriation was overspent, the expenditures were made under valid grant awards and the state has been fully reimbursed by the federal government.

Note 3 - Accounting and Reporting Changes

The state of Washington made certain accounting policy changes to implement new financial reporting standards. Certain of these policy changes and a prior period adjustment resulted in restatement of beginning fund balances.

Fund equity at July 1, 1994 has been restated as follows (expressed in thousands):

	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust	**Totals** (Memo Only)
Fund equity at July 1, 1994, as previously reported	$ 1,564,454	$ 1,217,182	$ 96,531	$ 146,527	$ (2,861,014)	$ 276,203	$ 22,318,127	$ 22,758,010
Restatement for taxpayer assessed revenue	103,400	-	-	-	-	-	-	103,400
Restatement for escheat property liability	(7,325)	-	-	-	-	-	(12,094)	(19,419)
Prior period adjustments	46,296	-	-	-	-	-	-	46,296
Fund equity as restated, July 1, 1994	$ 1,706,825	$ 1,217,182	$ 96,531	$ 146,527	$ (2,861,014)	$ 276,203	$ 22,306,033	$ 22,888,287

Accounting Policy Changes

Items Affecting Fund Equity

Fund equity was restated as a result of the state's implementation of Statement No. 22 of the Governmental Accounting Standards Board, Accounting for Taxpayer-Assessed Revenues in Governmental Funds. In compliance with Statement No. 22, the state changed its policy to recognize taxpayer-assessed revenues in the period when they become both measurable and available.

The state also restated fund equity as a result of implementing Statement No. 21 of the Governmental Accounting Standards Board, Accounting for Escheat Property. In compliance with Statement No. 21, the state established a fund liability for the estimated amount that will be reclaimed by claimants. Additionally, the excess transfer to the General Fund was reclassified as a liability.

Items Not Affecting Fund Equity

The state implemented Statement No. 23 of the Governmental Accounting Standards Board, Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities. While not retroactively applying the provisions of the statement, the state has made the policy change to defer and amortize the difference between the reacquisition price and the net carrying amount of the old debt in accordance with Statement No. 23.

Prior Period Adjustment

A detailed review of accounts receivable and payable at the Department of Social and Health Services revealed instances where prior year balances were overstated. A prior period adjustment was booked to clear the overstated balances.

Note 4 - Deposits and Investments

At fiscal year end, the carrying amount of Washington's cash and investments was $37.5 billion. Total cash and investments as of June 30, 1995 amounted to $37.8 billion, including cash from outstanding checks and warrants. Of this amount, cash on hand amounted to $18 million, deposits with financial institutions amounted to $435 million, and deposits in the federal Unemployment Trust Fund amounted to $1.5 billion. The remaining $35.9 billion represented the total carrying amount of investments.

Deposits by type, at June 30, 1995, are as follows (expressed in thousands):

Type of Deposit	Carrying Amount	Bank Balance	Insured	Uncollateralized
Demand deposits	$ 52,694	$ 115,999	$ 111,328	$ 4,671
Certificates of deposit	247,469	249,144	249,144	-
Cash with fiscal and escrow agents	70,559	69,725	67,067	2,658
Total Deposits	$ 370,722	$ 434,868	$ 427,539	$ 7,329

DEPOSITS - At fiscal year end, 98.3 percent of the state's deposits with financial institutions were insured, the remaining 1.7 percent were uncollateralized. The state's insured deposits are covered by the Federal Deposit Insurance Corporation (FDIC) and by the Washington Public Deposit Protection Commission (PDPC). The PDPC (established under Chapter 39.58 of the Revised Code of Washington) constitutes a multiple financial institution collateral pool that provides for additional assessments against participants of the pool on a pro rata basis. Accordingly, deposits covered by the PDPC are considered to be insured.

INVESTMENTS - The State Investment Board and the Office of the State Treasurer manage approximately 94.2 percent of the state's investing activity. Management responsibilities and investment instruments as authorized by statute are as follows:

STATE INVESTMENT BOARD (SIB) - Statute designates SIB as having investment management responsibility for pension funds, the Workers' Compensation Fund, permanent funds (established at statehood), and other specific funds. Pursuant to statute (RCW 43.33A) and SIB policy, SIB is authorized and invests in the following: Treasury Bills; discount notes; repurchase agreements; reverse repurchase agreements; banker's acceptances; commercial paper; U.S. Government and Agency (government sponsored corporations eligible for collateral purposes at the Federal Reserve) securities; nondollar bonds; investment grade corporate bonds; publicly traded mortgage-backed securities; privately placed mortgages; private placements of corporate debt; U.S. and foreign common stock; U.S. preferred stock; convertible securities; private equity including but not limited to: investment partnerships for venture capital, leveraged buy-outs, real estate, or other forms of private equity; asset backed securities; and derivative securities including futures, options, options on futures, forward contracts, and swap transactions.

The State Investment Board utilizes various derivative financial instruments, including mortgage-backed securities, financial futures, forward contracts, interest rate and equity swaps, and options, to manage its exposure to fluctuations in interest and currency rates while increasing portfolio returns. Derivative transactions involve, to varying degrees, market and credit risk. SIB mitigates market risks arising from derivative transactions by requiring its investment managers to maintain collateral in cash and investments equal to the securities positions outstanding, and thereby prohibiting the use of leverage or speculation. Credit risks arising from derivative transactions are mitigated by selecting and monitoring creditworthy counterparties and collateral issuers.

In accordance with state statute and SIB policy, the State Investment Board invests in various mortgage-backed securities, such as collateralized mortgage obligations, interest-only strips and principal-only strips. These securities are reported in aggregate as mortgage-backed securities in the disclosure of custodial risk. Mortgage-backed securities, at June 30, 1995, are as follows (expressed in thousands):

Collateralized Mortgage Obligations	$ 3,451,750
Interest-only strips	10,838
Principal-only strips	1,341
Total	$ 3,463,929

The State Investment Board has entered into financial futures contracts in its trading activities performed by outside managers. As of June 30, 1995, these contracts provide for equity exposure of approximately $385 million in stock of corporations included in the S&P 500 Index and fixed income exposure of approximately $(29) million in Eurodollars. Futures positions are marked to market and settled daily for changes in the price of the index benchmark from the previous day. Any increase or decrease in the price of the benchmark results in cash income to, or cash payments from, the retirement systems, and are included in net earnings on investments in the accompanying financial statements.

SIB's international investment managers enter into forward contracts to purchase foreign currencies at a guaranteed price (generally the market price at the time the contract settles). These contracts are typically linked to specific securities transactions to establish the base book value of the securities at contractual settlement date. All foreign currency gains and losses, realized and unrealized, resulting from these contracts are included in net earnings on investments in the accompanying financial statements. At June 30, 1995, foreign exchange forward contracts not linked to specific securities transactions were immaterial.

Interest rate and equity swap agreements generally involve the exchange of fixed and floating rate interest payments or equity index return without the exchange of the underlying notional amount on which the payments are calculated. SIB has authorized its outside investment managers to enter into interest rate swap agreements that hedge or synthetically alter assets and liabilities to manage the impact of fluctuating interest rates on earnings and market value. SIB has also authorized its outside investment managers to enter into S&P 500 Index swap agreements to access exposure to equity markets and the return of the S&P 500. The exchanged payment differential is reflected in net earnings on investments in the accompanying financial statements.

Option contracts give the acquirer, for a fee, the right, but not the obligation, to buy or sell within a limited time a financial instrument or currency at a contracted price that may also be settled in cash, based on differentials between specified indices.

OFFICE OF THE STATE TREASURER (OST) - The OST operates the state's Cash Management Account for investing cash in excess of daily requirements. Statute authorizes the OST to buy and sell the following types of investments: U.S. Government and Agency securities, banker's acceptances, and certificates of deposit with qualified public depositories. Securities underlying repurchase and reverse repurchase agreements are limited to those stated above.

INVESTMENT ACTIVITY - The state's investments are categorized below per GASB Statement No. 3 to give an indication of the level of risk assumed at year end. Category 1 includes investments that are insured, registered, or held by the state or its agent in the state's name. Category 2 includes uninsured and unregistered investments which are held by the counterparties' trust departments or agents in the state's name. Category 3 includes uninsured and unregistered investments held by counterparties, or their trust departments or agents, but not in the state's name.

Investments at June 30, 1995, by investment type, are listed below (expressed in thousands):

	Carrying Amount by GASB Categories			Total	
Investment Type	1	2	3	Carrying Amount	Market Value
Corporate bonds	$ 5,268,312	$ -	$ -	$ 5,268,312	$ 5,388,837
Corporate stocks	3,327,089	-	-	3,327,089	3,380,721
Government securities - domestic	3,709,210	-	-	3,709,210	3,811,629
Government bonds - foreign	646,245	-	-	646,245	683,917
Mortgage-backed securities	3,463,929	-	-	3,463,929	3,502,231
Repurchase agreements	1,430,825	6,126	-	1,436,951	1,436,950
Short-term securities	1,494,757	-	-	1,494,757	1,494,863
Zero coupon bonds	543,310	-	-	543,310	596,008
Asset backed securities	376,324	-	-	376,324	375,765
Commercial paper	429,030	-	-	429,030	429,030
Discount notes	32,988	-	-	32,988	33,006
Bankers' acceptances	20,163	1,191	-	21,354	21,371
	$ 20,742,182	$ 7,317	$ -	20,749,499	21,154,328
Mutual funds				7,971,002	7,972,805
Investments on loan				2,698,385	2,728,509
Leveraged buy-outs				1,655,882	1,655,882
Mortgages				600,460	617,357
Real estate				740,933	784,367
Short-term investment funds				796,530	796,530
Venture capital				312,001	320,884
Guaranteed investment contracts				296,769	296,769
Investments held by brokers-dealers under reverse repurchase agreements:					
U.S. Government securities				50,000	50,000
Total Investments				$ 35,871,461	$ 36,377,431

Washington State has statutory authority to enter into security lending agreements. Securities brokers held investments on loan under the agreements existing at June 30, 1995. The securities were loaned and collateralized by the state's agent at 102 percent with U.S. government securities and cash. The cash was invested by the state's agent in repurchase agreements and commercial paper. The securities held as collateral, and the securities underlying the cash collateral, are held by the state's agent and are not reflected in the June 30, 1995 investment balances. The securities were loaned with the agreement that they will be returned in the future for exchange of the collateral.

Repurchase agreements are collateralized at 102 percent. The collateral is priced daily and held by the state's agent in the state's name. Repurchase agreements outstanding as of June 30, 1995 are typical of the level of activity during the year.

State law permits the state to enter into reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The market value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing the dealers a margin against a decline in market value of the securities. If the dealers default on their obligations to resell these securities to the state or provide securities or cash of equal value, the state would suffer an economic loss equal to the difference between the market value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. This credit risk exposure at fiscal year end was $500,000. At June 30, 1995, the liability recorded for obligations under reverse repurchase agreements was $50.5 million. Agreements outstanding at fiscal year end are typical of the level of activity during the year.

The SIB has entered into a number of agreements that commit the state, upon request, to make additional investment purchases up to a stated amount. As of June 30, 1995, the state had the following unfunded investment commitments (expressed in thousands):

Leveraged buy-outs	$ 221,203
Venture capital	411,005

Note 5 - Receivables and Deferred Revenues

A. Taxes Receivable

Taxes Receivable at June 30, 1995 consisted of the following (expressed in thousands):

Taxes Receivable	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust & Agency	Totals (Memo Only)
Property	$ 570,407	$ -	$ -	$ -	$ -	$ -	$ -	$ 570,407
Sales	550,495	-	-	-	-	-	-	550,495
Business and occupation	184,479	-	-	-	-	-	-	184,479
Excise	416,077	2,349	-	-	3,666	-	-	422,092
Estate	18,801	-	-	-	-	-	-	18,801
Fuel	-	844	-	-	-	-	-	844
Other	34,907	8,289	-	-	-	-	-	43,196
Subtotals	1,775,166	11,482	-	-	3,666	-	-	1,790,314
Less: Allowance for uncollectible receivables	45,935	76	-	-	-	-	-	46,011
Total Taxes Receivable	$ 1,729,231	$ 11,406	$ -	$ -	$ 3,666	$ -	$ -	$ 1,744,303

B. Other Receivables

Other Receivables at June 30, 1995 consisted of the following (expressed in thousands):

Other Receivables	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust & Agency	Totals (Memo Only)
Public assistance receivables	$ 1,126,445	$ -	$ -	$ -	$ -	$ -	$ 2,793	$ 1,129,238
Accounts receivable	15,571	49,811	1	94	465,670	2,829	7,940	541,916
Interest receivable	813	6,103	-	19	84,730	313	172,473	264,451
Loans receivable	3,799	135	-	205	1	-	112,021	116,161
Long-term contracts	241,979	127,065	-	5,704	-	-	-	374,748
Miscellaneous receivables	26,325	54,908	-	1,999	18,082	145	111,816	213,275
Subtotals	1,414,932	238,022	1	8,021	568,483	3,287	407,043	2,639,789
Less: Allowance for uncollected receivables	979,726	4,300	1	2	57,265	124	45,156	1,086,574
Total Other Receivables	$ 435,206	$ 233,722	$ -	$ 8,019	$ 511,218	$ 3,163	$ 361,887	$ 1,553,215

Note: Public assistance receivables mainly represent amounts owed the state as a part of the Support Enforcement Program at the Department of Social and Health Services for the amounts due from persons required to pay support for individuals currently on state assistance, and has a low realization expectation. Accordingly, the receivable is offset by a large allowance for uncollectible receivables.

C. Deferred Revenues

Deferred Revenues at June 30, 1995 consisted of the following (expressed in thousands):

Deferred Revenues	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust	Totals (Memo Only)
Property taxes	$ 557,682	$ -	$ -	$ -	$ -	$ -	$ -	$ 557,682
Excise taxes	275,365	-	-	-	-	-	-	275,365
Timber sales	260,462	154,432	-	7,318	-	-	26,631	448,843
Charges for services	3,116	9,237	-	-	19,313	1,676	844	34,186
Donable goods	1,518	-	-	-	-	487	-	2,005
Miscellaneous	72,033	78,678	-	481	3,157	4,859	37,247	196,455
Total Deferred Revenues	$ 1,170,176	$ 242,347	$ -	$ 7,799	$ 22,470	$ 7,022	$ 64,722	$ 1,514,536

Note 6 - Interfund Balances

The following balances at June 30, 1995 represent due from/to balances among all funds and state agencies (expressed in thousands):

Fund Type	Fund	Due From	Totals	Due To	Totals
General Fund	General Fund		$ 153,782		$ 337,498
Special Revenue	Motor Vehicle Fund	$ 21,658		$ 17,773	
	Transportation Fund	1,370		4,331	
	State Wildlife Fund	5,217		4,530	
	Common School Construction Fund	1,120		1,127	
	Central Administrative and Regulatory Fund	4,864		2,694	
	Human Services Fund	13,840		20,516	
	Natural Resources Fund	12,042		15,965	
	Higher Education Fund	68,345	128,456	24,540	91,476
Debt Service	General Obligation Bond Fund	1,316		2,092	
	Transportation Bond Fund	179	1,495	-	2,092
Capital Projects	State Facilities Fund	22,802		26,975	
	Higher Education Facilities Fund	3,910	26,712	16,575	43,550
Enterprise	Liquor Fund	74		8,762	
	Workers' Compensation Fund	3,395		9,627	
	Convention and Trade Fund	537		30,344	
	Lottery Fund	10,159		5,323	
	Institutional Fund	3,257		249	
	State Ferry and Toll Fund	222		10,379	
	Student Services Fund	9,979		13,150	
	Other Activities Fund	40	27,663	1,850	79,684
Internal Service	Central Services Fund	8,260		2,640	
	Central Stores Fund	951		1,868	
	Equipment Revolving Fund	7,599		2,129	
	Data Processing Revolving Fund	19,610		738	
	Printing Services Fund	3,606		42	
	Motor Transport Fund	4,987		1,574	
	State Employees' Insurance Fund	3,967		3,861	
	Risk Management Fund	1,488		131	
	Higher Education Revolving Fund	2,934	53,402	5,379	18,362
Trust and Agency:					
Expendable Trust	Human Services Trust Fund	3,030		334	
	Higher Education Trust Fund	2,755		4,502	
	Miscellaneous Trust Fund	25,616		662	
Nonexpendable Trust	Higher Education Endowment Fund	2,806		63,178	
	Common School Permanent Fund	-		1,452	
Pension Trust	Public Employees' Fund	633		644	
	Teachers' Fund	387		384	
	L.E.O.F.F Fund	437		423	
	Washington State Patrol Fund	2		-	
	Judicial Fund	2,832		-	
	Volunteer Fire Fighters' Fund	8		-	
Agency	Clearing Fund	2,707		1,330	
	Suspense Fund	8,637		9,375	
	Local Government Distributions Fund	193,030		13	
	Deferred Compensation Fund	25		2,832	
	Pooled Investments Fund	102,818	345,723	79,442	164,571
Total Due From and To Other Funds			$ 737,233		$ 737,233

Note 7 - Fixed Assets

A. General Fixed Assets

The following is a summary of changes in the General Fixed Assets Account Group during Fiscal Year 1995 (expressed in thousands):

General Fixed Assets	Balances July 1, 1994	Additions	Deletions	Balances June 30, 1995
Land	$ 716,129	$ 117,769	$ 715	$ 833,183
Buildings	2,941,191	410,661	9,674	3,342,178
Accumulated depreciation	(871,849)	63,259	3,018	(932,090)
Net buildings	2,069,342			2,410,088
Furnishings and equipment	1,043,792	263,426	154,462	1,152,756
Accumulated depreciation	(695,350)	102,911	47,872	(750,389)
Net furnishings and equipment	348,442			402,367
Other improvements and miscellaneous	608,659	107,015	29,051	686,623
Accumulated depreciation	(91,048)	13,805	12,148	(92,705)
Net other improvements and miscellaneous	517,611			593,918
Construction in progress	552,075	328,620	377,249	503,446
Total General Fixed Assets	$ 4,203,599			$ 4,743,002

The following summarizes the funding source of the investment in General Fixed Assets as of June 30, 1995 (expressed in thousands):

Source of Funds by Fund Type:	
General	$ 1,440,608
Special revenue	791,927
Capital projects	2,480,918
Expendable trust	29,549
Total General Fixed Assets	$ 4,743,002

B. Proprietary Fixed Assets

The following is a summary of proprietary and nonexpendable trust fund fixed assets at June 30, 1995 (expressed in thousands):

Fixed Assets	Enterprise	Internal Service	Nonexpendable Trust
Land	$ 31,889	$ 1,282	$ 45
Buildings	933,164	19,065	-
Accumulated Depreciation	(254,622)	(7,105)	-
Net Buildings	678,542	11,960	-
Furnishings and Equipment	574,786	470,111	-
Accumulated Depreciation	(251,533)	(279,474)	-
Net Furnishings and Equipment	323,253	190,637	-
Other Improvements and Miscellaneous	22,955	12,868	-
Accumulated Depreciation	(7,422)	(8,596)	-
Net Other Improvements and Miscellaneous	15,533	4,272	-
Construction in Progress	157,722	9,511	-
Total Fixed Assets	$ 1,206,939	$ 217,662	$ 45

C. Construction in Progress

Other major construction commitments of the state at June 30, 1995 are as follows (expressed in thousands):

Agency/Project Commitments	FY95 Construction In Progress	Remaining Unencumbered Commitments
Department of General Administration:		
Various projects	$ 51,664	$ 2,695
Department of Corrections:		
Corrections centers construction, improvements, repairs	90,352	305,999
Department of Social and Health Services:		
State hospital and juvenile rehabilitation renovations and other projects	38,958	138,962
Washington State Patrol:		
Tacoma Headquarters and other miscellaneous projects	8,704	2,089
Department of Ecology:		
Building construction	48,265	226
Washington State Historical Society:		
Museum at Union Station	24,457	2,412
Higher Education Facilities:		
University of Washington	78,705	447,787
Washington State University	93,245	119,706
Eastern Washington University	7,910	812
Central Washington University	4,201	-
Western Washington University	22,868	33,332
Community College System	19,740	80,182
Other Agency Miscellaneous Projects	181,610	4,107
Total Construction in Progress	$ 670,679	$ 1,138,309

Note 8 - Bonds Payable

A. General Information

Bonds payable at June 30, 1995 consisted of bonds issued by the state of Washington and accounted for in the General Long-Term Obligations Account Group, and certain state agency bonds accounted for in proprietary funds. A detailed schedule of bonds issued and outstanding and those proprietary bonds accounted for by the State Treasurer are presented in the Washington State Treasurer's Annual Report for 1995. A copy of the report is available from the Office of State Treasurer, PO Box 40423, Olympia, Washington 98504-0423.

The State Constitution and enabling statutes authorize the incurrence of state general obligation debt, to which the state's full faith, credit, and taxing power are pledged, either by the Legislature or by a body designated by statute (presently the State Finance Committee). Legislative authorization arises from an affirmative vote of 60 percent of both legislative houses without voter consent, or from an affirmative vote of more than 50 percent of both legislative houses and a majority of the voters voting thereon. State Finance Committee debt authorization does not require voter approval, however, it is limited to providing for: (1) temporary deficiencies in the State Treasury (must be discharged within 12 months of the date of incurrence), (2) appropriations already made by the Legislature, or (3) refunding of outstanding obligations of the state.

Debt authorized in the preceding procedures are generally limited by the State Constitution and current statutes. The limitations prohibit the issuance of new debt if it would cause the maximum annual debt service, on all thereafter outstanding general obligation debt, to exceed a specified percentage of the arithmetic mean of general state revenues for the preceding three fiscal years. These limitations are on the incurrence of new debt, not on the amount of debt service which may be paid by the state in future years.

As certified by the State Treasurer, the maximum debt authorization subject to limitation for Fiscal Year 1995 was $4.94 billion, under the then current constitutional and statutory limitation. This computation excludes specific bond issues and types which are not secured by general state revenues. Based on the debt limitation calculation, the debt service requirements as of June 30, 1995, did not exceed the authorized debt service limitation.

B. Schedule of Bonds Payable

A schedule of bonds payable by fund type as of June 30, 1995 are as follows (expressed in thousands):

Bonds Payable	Enterprise	Internal Service	General L.T. Obligations Account Group	Totals
Matured bonds payable	$ 13,997	$ 55	$ -	$ 14,052
Bonds payable	421,865	2,630	5,428,845	5,853,340
Total Bonds Payable	$ 435,862	$ 2,685	$ 5,428,845	$ 5,867,392
General obligation (GO) bonds	$ 248,910	$ -	$ 5,181,135	$ 5,430,045
GO - zero interest rate bonds (principal)	21,344	-	186,908	208,252
GO - zero interest rate bonds (accreted interest)	6,345	-	53,717	60,062
Limited obligation bonds	-	-	7,085	7,085
Revenue bonds	159,263	2,685	-	161,948
Total Bonds Payable	$ 435,862	$ 2,685	$ 5,428,845	$ 5,867,392

C. General Obligation Bonds:

General obligation bonds have been authorized and issued primarily to provide funds for acquisition and construction of capital facilities for public and common schools, higher education, public and mental health, corrections, conservation, and maintenance and construction of highways, roads, and bridges. The state has also issued bonds for assistance to municipalities for construction of water and sewage treatment facilities and corrections facilities. In addition, bonds are authorized and issued to provide for the advance refunding of general obligation bonds outstanding.

Total debt service requirements for general obligation bonds to maturity as of June 30, 1995 are as follows (expressed in thousands):

General Obligation Bonds	Principal	Interest	Totals
By Fiscal Year:			
1996	$ 271,474	$ 301,411	$ 572,885
1997	275,010	292,477	567,487
1998	280,960	277,686	558,646
1999	292,224	262,166	554,390
2000	304,579	245,970	550,549
2001 - 2005	1,366,526	981,861	2,348,387
2006 - 2010	1,234,016	597,616	1,831,632
2011 - 2015	807,876	301,070	1,108,946
Thereafter	597,380	75,144	672,524
Total Debt Service Requirements	$ 5,430,045	$ 3,335,401	$ 8,765,447

General obligation bonds outstanding and bonds authorized but unissued at June 30, 1995 are as follows (expressed in thousands):

Purpose	Interest Rates	Outstanding Amounts	Authorized but Unissued
School building construction	3.00% to 8.80%	$ 218,825	$ 143
Higher education	3.35% to 10.75%	203,580	22,351
Institutional and public buildings	2.25% to 6.75%	147,400	-
Highways	3.00% to 12.00%	854,420	847,420
Administrative buildings	2.25% to 7.13%	98,270	-
General	3.00% to 12.00%	3,907,550	633,842
Totals		$ 5,430,045	$ 1,503,756

D. Zero Interest Rate General Obligation Bonds

Zero interest rate general obligation bonds have been authorized and issued primarily to provide funds for acquisition and construction of public administrative buildings and facilities, and capital facilities for public and common schools and higher education.

Total debt service requirements for zero interest rate general obligation bonds to maturity as of June 30, 1995 are as follows (expressed in thousands):

Zero Interest Rate General Obligation Bonds	Principal	Interest	Totals
By Fiscal Year:			
1996	$ 3,555	$ 1,545	$ 5,100
1997	8,501	4,599	13,100
1998	13,943	7,376	21,319
1999	14,728	8,578	23,306
2000	18,277	12,399	30,676
2001 - 2005	68,972	76,051	145,023
2006 - 2010	50,258	97,140	147,398
2011 - 2015	30,018	75,956	105,974
Thereafter	-	-	-
Total Debt Service Requirements	$ 208,252	$ 283,644	$ 491,896

Zero interest rate general obligation bonds outstanding and bonds authorized but unissued at June 30, 1995 are as follows (expressed in thousands):

Purpose	Interest Rates	Outstanding Amounts	Authorized but Unissued
School building construction	6.50% to 7.25%	$ 75,737	$ -
Highways	6.50% to 7.25%	18,887	-
Administrative buildings	6.50% to 7.25%	92,284	
General	6.55% to 7.10%	21,344	-
Totals		$ 208,252	$ -

E. Limited Obligation Bonds

Limited obligation bonds have been authorized and issued to provide funds for public school plant facilities; state, county, and city arterials; and state capital buildings and facilities. These bonds are payable primarily from dedicated revenue of the state's motor vehicle fuel excise tax and other miscellaneous dedicated revenue generated from assets such as harbors and tidelands, parking, and land grants.

Total debt service requirements for limited obligation bonds to maturity at June 30, 1995 are as follows (expressed in thousands):

Limited Obligation Bonds	Principal	Interest	**Totals**
By Fiscal Year:			
1996	$ 2,850	$ 390	$ 3,240
1997	955	273	1,228
1998	1,020	206	1,226
1999	1,090	135	1,225
2000	1,170	59	1,229
2001 - 2005	-	-	-
2006 - 2010	-	-	-
2011 - 2015	-	-	-
Thereafter	-	-	-
Total Debt Service Requirements	$ 7,085	$ 1,063	$ 8,148

Limited obligation bonds outstanding and bonds authorized but unissued at June 30, 1995 are as follows (expressed in thousands):

Purpose	Interest Rates	Outstanding Amounts	Authorized but Unissued
Highways	4.00% to 8.00%	$ 1,960	$ -
Administrative buildings	5.00% to 8.00%	5,125	-
Totals		$ 7,085	$ -

F. Revenue Bonds

Current state statutes empower certain state agencies to issue bonds that are not supported, or are not intended to be supported, by the full faith and credit of the state. These bonds pledge income derived from acquired or constructed assets for retirement of the debt and payment of the related interest.

Revenue bonds issued by individual agencies are supported by fees, rentals, and tolls assessed to users. Issuing agencies include the University of Washington (housing, dining, and student facilities construction), Washington State University (housing, dining, parking, and student facilities construction), Eastern Washington University (housing, dining, and student facilities construction), Central Washington University (housing, dining, and student facilities construction), the Evergreen State College (housing and dining), Western Washington University (housing and dining), and various Community Colleges (housing, dining, and student facilities construction).

Total debt service requirements for revenue bonds to maturity at June 30, 1995 are as follows (expressed in thousands):

Revenue Bonds	Principal	Interest	Totals
By Fiscal Year:			
1996	$ 5,104	$ 9,636	$ 14,740
1997	5,619	9,301	14,920
1998	5,867	9,031	14,898
1999	5,709	8,740	14,449
2000	5,399	8,451	13,850
2001 - 2005	25,041	37,546	62,587
2006 - 2010	24,738	30,598	55,336
2011 - 2015	34,902	21,909	56,811
Thereafter	49,569	13,252	62,821
Total Debt Service Requirements	$ 161,948	$ 148,464	$ 310,412

Revenue bonds outstanding and bonds authorized but unissued at June 30, 1995 are as follows (expressed in thousands):

Purpose	Interest Rates	Outstanding Amounts	Authorized but Unissued
Higher education - Student activities	3.0% to 7.70%	$ 131,086	$ -
Other	3.6% to 6.10%	30,862	-
Totals		$ 161,948	$ -

G. Defeased Bonds

When advantageous and permitted by statute or bond covenants, the State Finance Committee authorizes the advance refunding of outstanding bonds. The net proceeds of each refunding issue are used to purchase U.S. Government securities that are placed in irrevocable trusts with escrow agents to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been excluded from the state's financial statements.

CURRENT YEAR DEFEASANCES

During the year ended June 30, 1995, the state issued the following bonds to advance refund various outstanding issues:

General Long-Term Obligations:

On September 1, 1994, the state issued $100.1 million general obligation refunding bonds (Series R-95A) to refund certain maturities of state of Washington bonds held by Goldman Sachs and some other institutional investors. After a debt service contribution from the bond funds of $2.1 million, the state achieved a debt service savings of $4.6 million and a present value economic gain of $1.4 million.

On May 1, 1995, the state issued $126.4 million general obligation refunding various purpose bonds (Series R-95B). Prior debt service cash flows included $7.1 million bond fund contribution resulting in a debt service savings of $13.8 million and a present value economic gain of $6.1 million.

On May 1, 1995, the state issued $53.7 million general obligation refunding motor vehicle fuel tax bonds (Series R-95C). This resulted in a debt service savings of $6.6 million and a present value economic gain of $3.9 million.

Proprietary Funds:
On May 1, 1995, the state issued $950,000 in General Obligation Bonds (Series R95B) to advance refund $935,000 in General Obligation Bonds (Series R89D). The refunding was undertaken to achieve a debt service saving of $73,567 over the next six years, and to obtain an economic gain of $45,947.

On July 7, 1994, $5.5 million in Student Facilities Revenue Bonds (Series 1994) were issued to advance refund $5.2 million in Student Facilities Revenue Bonds (Series 1975). The refunding was undertaken to achieve a debt service saving of $736,990 over the next ten years, and to obtain an economic gain of $486,778.

On October 21, 1994, $11.4 million in Housing and Food Service Refunding Bonds (Series 1994) were issued to advance refund $14.6 million in Housing and Food Service Bonds (Series 1965 through 1976) accounted for in the Student Services Fund. The refunding resulted in an aggregate debt service increase over the next thirty years of $4 million and an economic loss of $137,000.

PRIOR YEAR DEFEASANCES
State refunded and defeased bonded debt outstanding totaled $1.9 billion for general governmental bonded debt and $195 million for proprietary bonded debt as of June 30, 1995.

Note 9 - Certificates of Participation

Current state law authorizes the state to enter into long-term financing contracts for the acquisition of real or personal property and for the issuance of certificates of participation in the contracts. These certificates of participation do not fall under the general obligation debt limitations and are generally payable only from annual appropriations by the Legislature. Other specific provisions could also impact the state's obligation under certain agreements. If the possibility of the state not meeting the terms of the agreement is considered remote, the certificate of participation is recorded for financial reporting purposes.

Total debt service requirements for certificates of participation to maturity as of June 30, 1995 are as follows (expressed in thousands):

	Equipment		Real Estate		**Totals**	
Certificates of Participation	Principal	Interest	Principal	Interest	Principal	Interest
By Fiscal Year:						
1996	$ 22,762	$ 4,103	$ 1,200	$ 5,850	$ 23,962	$ 9,953
1997	19,210	2,876	1,265	5,755	20,475	8,631
1998	14,567	1,893	2,035	5,687	16,602	7,580
1999	9,803	1,160	2,225	5,571	12,028	6,731
2000	4,922	650	2,565	5,438	7,487	6,088
2001-2005	7,090	1,018	18,630	24,314	25,720	25,332
2006-2010	109	7	29,050	16,995	29,159	17,002
2011-2015	-	-	35,545	7,239	35,545	7,239
Thereafter	-	-	7,470	738	7,470	738
Total Debt Service Requirements	$ 78,463	$ 11,707	$ 99,985	$ 77,587	$ 178,448	$ 89,294

Note 10 - Lease Commitments

The state leases land, office facilities, office and computer equipment, and other assets. Although lease terms vary, most leases are subject to appropriation from the state Legislature to continue the obligation. If the possibility of receiving no funding from the Legislature is remote, leases are considered noncancelable for financial reporting purposes. Leases which represent acquisitions are classified as capital leases and the related assets and liabilities are recorded in the financial records at the inception of the lease. Other leases are classified as operating leases with the lease payments recorded as expenditures or expenses during the life of the lease. The total operating lease expenditures for Fiscal Years 1994 and 1995 were $189.1 million and $207.3 million, respectively. The total lease expense for Fiscal Year 1995 was $208.7 million.

Future minimum lease commitments for noncancelable operating and capital leases as of June 30, 1995 are as follows (expressed in thousands):

		Capital Leases			
Lease Commitments during Fiscal Years:	Operating Leases	Enterprise Funds	Internal Service Funds	General L.T. Obligations Account Group	**Total** All Leases
1996	$ 83,758	$ 470	$ 1,019	$ 1,641	$ 86,888
1997	76,957	378	606	729	78,670
1998	71,276	348	474	653	72,751
1999	67,036	350	264	547	68,197
2000	64,814	350	145	375	65,684
Thereafter	71,052	1,947	-	280	73,279
Total Future Minimum Lease Payments	$ 434,893	3,843	2,508	4,225	$ 445,469
Amounts representing executory and interest costs		1,355	294	596	
Present Value of Future Minimum Lease Payments		$ 2,488	$ 2,214	$ 3,629	

Note 11 - Claims and Judgments Payable

Claims and judgments payable is materially comprised of the three activities described below: workers' compensation, risk management, and state employees' insurance.

A. Workers' Compensation

The following schedule represents changes in claim liabilities for the past two fiscal years for the fund's two benefit plans: Workers' Compensation Basic Plan and Workers' Compensation Supplemental Pension Plan (expressed in thousands).

	Basic Plan		Supplemental Plan		**Fiscal Year Totals**	
Workers' Compensation Fund	FY95	FY94	FY95	FY94	FY95	FY94
Unpaid claims and claim adjustment expenses at beginning of year	$ 5,315,520	$ 4,982,548	$ 4,511,000	$ 4,207,000	$ 9,826,520	$ 9,189,548
Changes in incurred claims and claim adjustment expenses:						
Provision for insured events of the current year	1,052,711	1,140,632	214,966	223,089	1,267,677	1,363,721
Increase (Decrease) in provision for insured events of prior years	140,216	(11,689)	156,299	239,354	296,515	227,665
Increase in claims and claim adjustment expenses	1,192,927	1,128,943	371,265	462,443	1,564,192	1,591,386
Payments:						
Claims and claim adjustment expenses attributable to insured events in the current year	182,669	182,987	-	-	182,669	182,987
Claims and claim adjustment expenses attributable to insured events of prior years	638,637	612,984	152,265	158,443	790,902	771,427
Total Payments	821,306	795,971	152,265	158,443	973,571	954,414
Total unpaid claims and claim adjustment expenses at fiscal year end	$ 5,687,141	$ 5,315,520	$ 4,730,000	$ 4,511,000	$ 10,417,141	$ 9,826,520

As discussed in Note 1.L, the Workers' Compensation Fund, an enterprise fund, establishes a liability for both reported and incurred but not reported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses.

At June 30, 1995, $23.4 billion of unpaid claims and claim adjustment expenses are presented at their net present value of $10.4 billion. These claims are discounted at assumed interest rates of 4.5 to 6.5 percent.

The $10.4 billion claims and claim adjustment liabilities as of June 30, 1995, includes $4.7 billion for supplemental pension cost of living adjustments (COLA) that by statute are not to be fully funded. These COLA payments are funded on a pay-as-you-go basis, and the Workers' Compensation actuaries have indicated that future premium payments will be sufficient to pay these claims as they come due. The remaining $5.7 billion in claims liabilities is fully funded by $6.7 billion in assets, including $6.2 billion of long-term investments, held for payment of the claims.

B. Risk Management

Changes in the balances of risk management claim liabilities during Fiscal Years 1994 and 1995 were as follows (expressed in thousands):

Risk Management Fund	**Balances at Beginning of Fiscal Year**	Current Year Claims and Changes in Estimates	Claim Payments	**Balances at End of Fiscal Year**
FY 1994	$ 79,182	37,264	(11,947)	$ 104,499
FY 1995	$ 104,499	29,302	(19,983)	$ 113,818

The Risk Management Fund, an internal service fund, reports claims and judgment liabilities when it becomes probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an actuarially determined amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims liabilities are re-evaluated annually to take into consideration recently settled claims, the frequency of claims, and other economic or social factors.

The state and its component public authorities are defendants in a significant number of lawsuits pertaining to property and casualty matters. As of June 30, 1995, outstanding and actuarially determined claims against the state and its public authorities were $113.8 million for which the state has recorded a liability. At June 30, 1995, the Risk Management Fund held $69.3 million in cash equivalents designated for payment of these claims. Of this amount, $52.6 million has been accumulated under the state's Self Insurance Liability Program initiated in 1990. This Self Insurance Liability Program is intended to provide funds for the payment of all claims resulting from accidents after June 30, 1990. The state is restricted by law from accumulating funds in the Self Insurance Liability Program in excess of 50% of total outstanding and actuarially determined claims. Current projections indicate that the state will reach this limit by June 30, 1996.

C. State Employees' Insurance

Changes in the balances of State Employees' Insurance claims liabilities during Fiscal Years 1994 and 1995 were as follows (expressed in thousands):

State Employees' Insurance Fund	Balances at Beginning of Fiscal Year	Current Year Claims and Changes in Estimates	Claim Payments	Balances at End of Fiscal Year
FY 1994	$ 25,465	182,090	(184,436)	$ 23,119
FY 1995	$ 23,119	185,375	(183,995)	$ 24,499

The State Employees' Insurance Fund, an internal service fund, establishes a liability when it becomes probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an actuarially determined amount for claims that have been incurred but not reported. Because actual claims liabilities depend on various complex factors, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic or social factors.

At June 30, 1995, the state held $31.1 million in investments designated for payment of state employees' insurance claims.

Note 12 - No Commitment Debt

The Washington Health Care Facilities Authority, the Higher Education Facilities Authority, and the Washington State Housing Finance Commission (financing authorities) were created by the state Legislature. For financial reporting purposes, they are discretely presented as component units. These financing authorities issue bonds for the purpose of making loans to qualified nonprofit health care and private, to nonprofit higher education facilities for construction and related improvements, and to qualified home buyers for new, existing, or improved residential dwellings. These bonds do not constitute either a legal or moral obligation of the state or these financing authorities, nor does the state or these financing authorities pledge their faith and credit for the payment of such bonds. Debt service on the bonds is payable solely from payments pursuant to loan agreements. Due to their no commitment nature, the bonds issued by these financing authorities are excluded from the state's financial statements.

The table below presents the latest available balances for the "No Commitment" debt of the state's financing authorities (expressed in thousands).

No Commitment Debt	Principal Balance June 30, 1994
Washington State Housing Finance Commission	$ 980,199
Washington Health Care Facilities Authority	1,662,422
Higher Education Facilities Authority	100,027
Total No Commitment Debt	$ 2,742,648

Note 13 - Changes in General Long-Term Obligations

The changes in the General Long-Term Obligations Account Group for the fiscal year ended June 30, 1995 are summarized as follows (expressed in thousands):

General Long-Term Obligations	Bonds Payable	Accrued Retirement Costs	Certificates of Participation	Compensated Absences	Other Long-Term Obligations	Total General Long-Term Obligations
Balances, July 1, 1994	$ 5,074,220	$ 772,400	$ 144,480	$ 250,654	$ 45,061	$ 6,286,815
Accretion of long-term interest liability on zero interest rate bonds	12,417	-	-	-	-	12,417
Decrease in compensated absences earned	-	-	-	(1,456)	-	(1,456)
General obligation debt issues	893,863	-	-	-	-	893,863
General obligation zero interest rate debt issues	28,728	-	-	-	-	28,728
Decrease in installment contract obligations	-	-	-	-	(211)	(211)
Decrease in lease obligations	-	-	-	-	(514)	(514)
Decrease in certificates of participation	-	-	(19,789)	-	-	(19,789)
Increase in certificates of participation	-	-	30,333	-	-	30,333
Decrease in actuarially determined accrued retirement obligations required in governmental fund types	-	(3,400)	-	-	-	(3,400)
Decrease in other long-term obligations	-	-	-	-	(25,617)	(25,617)
General and limited obligation retirement of principal	(580,383)	-	-	-	-	(580,383)
Balances, June 30, 1995	$ 5,428,845	$ 769,000	$ 155,024	$ 249,198	$ 18,719	$ 6,620,786

Note 14 - Residual Equity Transfers

The table below reflects residual equity transfers in and out and related activity which occurred during the fiscal year ended June 30, 1995 (expressed in thousands):

Residual Equity Transfers	In	Out
General Fund	$ 20	$ 39
Central Administrative and Regulatory Fund	180	55
Higher Education Fund	1,659	1,670
Wokers' Compensation Fund	28,309	28,309
Institutional Fund	1	1
Student Services Fund	318	318
Central Services Fund	10,335	9,609
Central Stores Fund	1,220	2,031
Motor Transport Fund	6,197	6,113
State Employees' Insurance Fund	15,256	15,256
Higher Education Revolving Fund	66	66
Higher Education Trust Fund	144	4
Miscellaneous Trust Fund	10	10
Higher Education Endowment Fund	-	110
Public Employees' Retirement Fund	-	67
Teachers' Retirement Fund	-	57
Total Residual Equity Transfers	$ 63,715	$ 63,715

Note 15 - Reservations and Designations of Fund Balance

The nature and purposes of fund balance reserves and designations as of June 30, 1995 are listed below (expressed in thousands):

Reservations and Designations of Fund Balance	General	Special Revenue	Debt Service	Capital Projects	Trust	Totals (Memo Only)
Reserved for:						
Encumbrances	$ 1,574	$ 154,223	$ -	$ 34,776	$ 43,506	$ 234,079
Inventories	14,868	24,261	-	-	257	39,386
Long-term student loans	-	-	-	-	89,077	89,077
Investments with trustees	393	297	-	-	6,302	6,992
Restricted accounts	348,812	-	-	-	-	348,812
Nonexpendable trust corpus	-	-	-	-	901,003	901,003
Unemployment compensation	-	-	-	-	1,501,580	1,501,580
Retirement systems	-	-	-	-	22,834,136	22,834,136
Working capital	626,321	-	-	-	-	626,321
Long-term receivables	297,602	5,963	-	454	126,704	430,723
Long-term investments	745	14,378	-	4	74,478	89,605
Petty cash	519	2,140	-	-	33	2,692
Total Reserved Fund Balance	$ 1,290,834	$ 201,262	$ -	$ 35,234	$ 25,577,076	$ 27,104,406
Unreserved, Designated for:						
Debt service	$ -	$ -	$ 79,955	$ -	$ -	$ 79,955
Higher education	-	131,378	-	-	4,408	135,786
Other	-	-	-	-	688	688
Total Unreserved, Designated Fund Balance	$ -	$ 131,378	$ 79,955	$ -	$ 5,096	$ 216,429

Note 16 - Deficit Fund Balances and Retained Earnings

Proprietary and Similar Trust Funds

At June 30, 1995, there were four proprietary funds with deficit retained earnings.

The Workers' Compensation Fund, an enterprise fund, had deficit retained earnings of $4.0 billion at June 30, 1995. The fund is used to account for the workers' compensation program which provides time-loss, medical, disability, and pension payments to qualifying individuals sustaining work-related injuries. The main benefit plans of the workers' compensation program are funded based on rates that will keep these plans solvent in accordance with recognized actuarial principles. The supplemental pension cost of living adjustments (COLA) granted for time-loss and disability payments, however, are funded on a pay-as-you-go basis. By statute, the state is only allowed to collect enough revenue to fund the current COLA payments.

The following schedule details the changes in total fund equity for the Workers' Compensation Fund during the fiscal year ended June 30, 1995 (expressed in thousands):

Workers' Compensation Fund	Unrealized Gain on Investments	Contributed Capital	Retained Earnings (Deficit)	**Total Fund Equity**
Balances at July 1, 1994	$ 113,880	$ 23	$ (3,897,799)	$ (3,783,896)
Fiscal Year 1995 activity	(21,437)	-	(100,958)	(122,395)
Balances at June 30, 1995	$ 92,443	$ 23	$ (3,998,757)	$ (3,906,291)

The Convention and Trade Fund, an enterprise fund, had deficit retained earnings of $5.7 million at June 30, 1995. The Washington State Convention and Trade Center (CTC) uses the Convention and Trade Fund to account for the construction and operation of the Washington State Convention and Trade Center in Seattle.

The following schedule details the changes in total fund equity for the Convention and Trade Fund during the fiscal year ended June 30, 1995 (expressed in thousands):

Convention and Trade Fund	Contributed Capital	Retained Earnings (Deficit)	**Total Fund Equity**
Balances at July 1, 1994	$ 1,072	$ (6,190)	$ (5,118)
Fiscal Year 1995 activity	-	472	472
Balances at June 30, 1995	$ 1,072	$ (5,718)	$ (4,646)

The State Ferry Fund, an enterprise fund, had deficit retained earnings of $188 million at June 30, 1995. The Department of Transportation (DOT) uses the State Ferry Fund to account for receipt of revenue and payment of all operating expenses of the State Ferry System. The State Ferry System is considered to be part of the state highway system operated by DOT. As such, if the State Ferry System incurs a loss from operations, it is offset by subsidies provided by the Legislature for ferry equipment and facilities. These subsidies are recorded as contributed capital.

Therefore, total fund equity for the State Ferry Fund was $453 million at June 30, 1995 as detailed below (expressed in thousands):

State Ferry Fund	Contributed Capital	Retained Earnings (Deficit)	Total Fund Equity
Balances at July 1, 1994	$ 533,290	$ (160,788)	$ 372,502
Fiscal Year 1995 activity	107,802	(27,285)	80,517
Balances at June 30, 1995	$ 641,092	$ (188,073)	$ 453,019

The Risk Management Fund, an internal service fund, had deficit retained earnings of $43.5 million at June 30, 1995. The Risk Management Fund is used to account for the claims, torts, and judgments generally arising from automobile, ferry services, and general government operations. These costs are supported by premium assessments to state agencies that are designed to cover current and future claim losses. Outstanding and incurred but not reported claims are actuarially determined and accrued, resulting in the deficit retained earnings.

The following schedule details the changes in retained earnings for the Risk Management Fund during the fiscal year ended June 30, 1995 (expressed in thousands):

Risk Management Fund	Retained Earnings (Deficit)
Balances at July 1, 1994	$ (46,237)
Fiscal Year 1995 activity	2,766
Balances at June 30, 1995	$ (43,471)

Note 17 - Retirement Systems

A. General Description of the Retirement Systems

The state of Washington, through the Department of Retirement Systems (DRS), administers five retirement systems: Public Employees' Retirement System (PERS), Teachers' Retirement System (TRS), Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF), Washington State Patrol Retirement System (WSP), and the Judicial Retirement System (JRS). The state of Washington Board for Volunteer Fire Fighters' administers the Volunteer Fire Fighters' Relief and Pension Fund (VFFRPF), and the Administrator for the Courts administers the Judicial Retirement Account (JRA). In addition, state universities and colleges participate in Teachers' Insurance and Annuity Association/College Retirement Equity Fund (TIAA/CREF) which is privately operated. Information pertinent to each system is stated below.

PERS, TRS, and LEOFF are cost-sharing multiple-employer defined benefit retirement systems; these retirement systems contain two plans. Participants who joined the systems by September 30, 1977 are Plan I members. Those joining thereafter are enrolled in Plan II. JRS and VFFRPF are also cost-sharing multiple-employer defined benefit systems. The WSP is a single-employer defined benefit retirement system. TIAA/CREF and the JRA are multiple-employer defined contribution systems. Pension benefit provisions for all systems have been established by statute. Vesting information for the retirement systems is disclosed on an individual basis (Note 17, Item E - System Details).

The employers' actual current-year covered payroll for the fiscal year ended June 30, 1995 is noted below (expressed in millions):

	PERS	TRS	LEOFF	WSP	JRS	VFFRPF	**Totals**
Washington State	$ 2,433	$ 45	$ -	$ 43	$ 4	$ -	$ 2,525
Other Employers	2,785	2,315	607	-	2	N/A	5,709
All Employers	$ 5,218	$ 2,360	$ 607	$ 43	$ 6	$ -	$ 8,234

TIAA/CREF current-year covered payroll was $608 million. Payroll information is not applicable for VFFRPF since this is a volunteer organization. In VFFRPF pension benefits are based on years of service, not salary. Total current-year payroll for Washington State employees was $3.1 billion.

PERS, TRS, LEOFF, WSP, JRS, VFFRPF, JRA, and TIAA/CREF retirement benefits are financed from a combination of investment earnings and employee, employer, and state contributions. LEOFF benefits are also financed through legislative appropriations. JRS is financed on a pay-as-you-go basis. Employee contributions to PERS, TRS, LEOFF, and WSP accrue interest at a rate specified by DRS. During Fiscal Year 1995, the DRS-established rate on employee contributions was 5.5 percent. Employees in PERS, TRS, LEOFF, and WSP can elect to withdraw total employee contributions and interest earnings thereon upon termination. JRS employees earn no interest on contributions and may not elect to withdraw their contributions upon termination. VFFRPF employees earn no interest on contributions and may elect to withdraw their contributions upon termination.

The Aggregate Cost Method is used in PERS II, TRS II, and LEOFF II to establish a contribution rate which is a level percent of pay. The Entry Age Cost Method is used in PERS I, TRS I, LEOFF I, WSP, JRS, and VFFRPF. The Normal Cost for Plans I is determined by the rate developed in the respective Plans II. For PERS I, TRS I, LEOFF I, and WSP, the Unfunded Actuarial Accrued Liability (UAAL) is amortized as a level percentage of all salaries (Plan I and II) over periods ending in 2024. The JRS UAAL is amortized over 14 years, ending in 2008; the VFFRPF UAAL is amortized over 23 years, ending in 2017. Plans II have no UAAL.

B. Funding Status and Progress

The total pension benefit obligation for each system is stated below on an individual basis. These totals are based on a standardized disclosure measure as required by GASB Statement No. 5. This standardized measure is the actuarial present value of credited projected benefits, adjusted for the effects of projected salary increases and any step-rate benefits (LEOFF Plan 1 and JRS only) estimated to be payable in the future as a result of employee service to date. Use of the standardized measure enables readers of Washington's financial statements to: (a) assess on an ongoing basis the funding status of each system, (b) assess progress made in accumulating sufficient assets to pay benefits when due, and (c) make comparisons with other states or retirement systems. The standardized disclosure method is independent of the actuarial funding method used to determine contributions to the retirement systems. The assumptions used to determine the contribution rates are the same as those used in determining the pension benefit obligation.

Historical Trend Information for six of the state administered systems is found in the Required Supplementary Information section of this report. This will provide information about the progress made by Washington State in accumulating sufficient assets to pay benefits when due.

The Office of the State Actuary, using methods prescribed by statute, determines actuarially required contribution rates for the various systems. In the past, the rates actually levied were determined by the Legislature which was not obligated to follow the actuarially determined rates. Often the actual rates have been less than those actuarially required. However, beginning in 1989, the Legislature set employer and state contribution rates for six year intervals for PERS, TRS, LEOFF, and WSP. Beginning 1994, the interval was shortened to two years. Plan II employee rates may be set more frequently. The rates are sufficient to fully fund these systems by 2024.

The difference between the actuarially required contributions and actual contributions made are recorded in the General Long-Term Obligations Account Group and displayed in the Changes in General Long-Term Obligations (see Note 13). For the fiscal year ended June 30, 1995, the aggregate of contributions made for all retirement systems was $3.4 million greater than the actuarially required contributions.

C. Summary of Selected Actuarial Data

The following summary of selected actuarial data, compiled in accordance with GASB Statement No. 5, was prepared by the Office of the State Actuary using the latest actuarial data:

Number of participants:	PERS	TRS	LEOFF	WSP	JRS	VFFRPF	Totals (Memo Only)
Active members:							
Vested	100,206	41,265	8,846	746	50	7,380	158,493
Nonvested	77,250	16,466	3,879	212	15	5,062	102,884
Total active members	177,456	57,731	12,725	958	65	12,442	261,377
Inactive vested members	8,766	3,753	188	68	2	2,574	15,351
Retired members	53,285	25,956	6,436	482	116	2,046	88,321
Total participants	239,507	87,440	19,349	1,508	183	17,062	365,049
Latest actuarial valuation date	12/31/94	6/30/94	12/31/94	12/31/94	12/31/94	12/31/94	
Actuarial update		6/30/95					
Pension benefit obligation (amounts in millions):							
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	$ 4,513	$ 3,492	$ 2,874	$ 147	$ 56	$ 33	$ 11,115
Current employees:							
Accumulated employee contributions including allocated investment income	2,929	2,029	461	39	7	3	5,468
Employer financed vested benefits	3,633	3,805	1,447	115	20	18	9,038
Employer financed nonvested benefits	474	159	65	4	4	1	707
Total pension benefit obligation	11,549	9,485	4,847	305	87	55	26,328
Less net assets available for benefits as of actuarial date (at market)	9,800	6,720	3,511	327	2	60	20,420
Unfunded (Assets in excess of) pension benefit obligation	$ 1,749	$ 2,765	$ 1,336	$ (22)	$ 85	$ (5)	$ 5,908

The measurement of the total pension benefit obligation for PERS, LEOFF, WSP, JRS, and VFFRPF is based on the date of the actuarial valuation as noted in the table above. Net assets available to pay pension benefits were valued as of the same date. The measurement of the total pension benefit obligation for TRS is based on a June 30, 1994, actuarial valuation which was updated to June 30, 1995. Net assets available to pay pension benefits were projected to the same date.

D. Significant Actuarial Assumptions and Benefit Provisions

A summary of significant actuarial assumptions and benefit provisions used to determine the standardized measure of the pension benefit obligation for PERS, TRS, LEOFF, WSP, and JRS is listed below:

- The discount rate used to determine the present value of the pension benefit obligation is 7.5 percent.
- A 5.5 percent projected salary increase due to inflation.
- Projected salary increases due to merit or seniority are based on length of service, with new employees getting increases after one year of service.

PERS 5.7 percent for the first year grading to zero with fifteen years of service.
TRS level 3.7 percent for fifteen years, then zero.
LEOFF 8.1 percent grading to zero with nine years of service.
WSP 5.5 percent followed by a non-monotonic decrease to zero after six years.

- For WSP, a COLA which is 2.0 percent of the original benefit amount.

- Total normal costs (state, employer, and employee) for the systems are as follows:

PERS I	11.06 percent of pay
PERS II	10.11 percent of pay
TRS I	12.47 percent of pay
TRS II	12.94 percent of pay
LEOFF I	15.40 percent of pay
LEOFF II	17.00 percent of pay
WSP	23.78 percent of pay
JRS	20.20 percent of pay

- Employee contributions are fixed at 6.0 percent of current-year covered payroll in PERS I, LEOFF I, and TRS I; 7.0 percent in WSP; and 7.5 percent in JRS. Employers contribute 6.0 percent of current-year covered payroll in LEOFF I and the state pays the remaining share. All retirement system Plan II members pay 50 percent of the normal costs, with the state or employer paying the balance. For LEOFF II, the state pays 20 percent and the employer pays 30 percent, except for employees of ports and universities, where the employer pays 50 percent and the state pays 0 percent.

- The aggregate cost method incorporates all costs into one rate. There is no separate UAAL rate for Plans II. The UAAL of Plans I is amortized over future salaries of both Plans I and Plans II members.

E. System Details

Public Employees' Retirement System (PERS)

System Information

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior Courts; employees of legislative committees; community and technical college, college, and university employees not in national higher education retirement programs such as TIAA/CREF; judges of district and municipal courts; noncertificated employees of school districts; and employees of local governments. Approximately 47 percent of PERS salaries is from state employment. Retirement benefits are vested after an employee completes five years of eligible service.

Plan I members are eligible for retirement after 30 years of service, or at the age of 60 with 5 years service, or at the age of 55 with 25 years of service. The annual pension is 2 percent of the average final compensation per year of membership service (average final compensation is based on the greatest compensation during any eligible 24 consecutive compensation months), capped at 60 percent.

Plan II members may retire at the age of 65 with 5 years of service, or at the age of 55 with 20 years of service, with an allowance of 2 percent per year of membership service of the average final compensation (average final compensation is based on the greatest compensation during any consecutive eligible 60 month period). Plan II retirements prior to the age of 65 are actuarially reduced. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

Plan I provides duty and nonduty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity payable to the age of 60. The amount of the allowance is two-thirds of the average final compensation, not to exceed $4,200 a year. The benefit is reduced by any worker's compensation benefit and is payable as long as the member remains disabled or attains the age of 60. A member with five years of membership service is eligible for nonduty disability retirement. Prior to the age of 55, the allowance amount is 2 percent of the average final compensation for each year of service reduced by 2 percent for each year by which the date of disablement precedes the disabled member's fifty-fifth birthday. The total benefit is limited to 60 percent of the average final compensation. There were no material changes in PERS benefit provisions for the fiscal year ended June 30, 1995.

Contributions Required and Contributions Made

Each biennium the Legislature establishes Plan I employer contribution rates and Plan II employer and employee contribution rates. Employee contribution rates for Plan I are established by statute at 6.00 percent. The employer and employee contribution rates for Plan II are developed by the Office of the State Actuary to fully fund PERS II. All employers are required to contribute at the level established by the Legislature. The methods used to determine the contribution requirements are established under state statute as per RCW 41.45.

The state's actuarially determined (12-31-94) contribution rate as a percentage of employers' current-year covered payroll for the fiscal year ended June 30, 1995, was 7.32 percent for Plan I, of which 5.06 percent represents normal costs and 2.26 percent represents the UAAL. For Plan II, the rate was 7.32 percent, 5.06 percent represents normal costs and 2.26 percent represents the UAAL for Plan I. In addition to the 7.32 percent, which was developed from the 1994 Actuarial Valuation, there was an additional contribution of .09 percent for one temporary COLA. Thus, the total required contribution rate for both plans was increased to 7.41 percent. Total PERS actuarially determined contributions were $663.6 million which included $117.9 million for the UAAL;

$386.7 million was required from the employer and $276.9 million from the employee. Total actual contributions received were $661.6 million; $387.0 million was paid by the employer and $274.6 million by the employee.

The state's liabilities constitute approximately 47 percent of all PERS liabilities; the state's figures are as follows: total required contributions were $310.0 million, which included $55.0 million for the UAAL. The state's required share was $180.3 million (47 percent of total current-year actuarially determined contribution requirement for all employers), and the employees' share $129.7 million. Total actual contributions were $309.0 million, of which the state contributed $180.4 million and employees $128.6 million.

Actual contribution rates (expressed as a percentage of the employers' current-year covered payroll) at the close of Fiscal Year 1995 were as follows:

	PLAN I	PLAN II
Employer Rates:		
State agencies	7.41 percent	7.41 percent
Local governmental units	7.41 percent	7.41 percent
State government elective officials	11.12 percent	7.41 percent
Employee Rates:		
State agencies	6.00 percent	5.00 percent
Local governmental units	6.00 percent	5.00 percent
State government elective officials	7.50 percent	5.00 percent

Teachers' Retirement System (TRS)

System Information
The TRS was legislatively established in 1938. Eligibility for membership requires service as a certificated employee in grades K-12 in the public schools. TRS is comprised principally of nonstate employees. Retirement benefits are vested after an employee completes five years of eligible service.

Teachers in Plan I are eligible to retire either after 30 years of service, or at the age of 60 with 5 years of service, or at the age of 55 with 25 years of service. The benefit is 2 percent of the average earnable compensation per year of service (average earnable compensation is based on the greatest compensation during the highest of any consecutive two compensation contract years).

The normal retirement age for Plan II employees is 65. However, members are eligible to retire at the age of 65 with 5 years of service, or at the age of 55 with 20 years of service. Plan II benefits are 2 percent of the average final compensation per year of service with a cost-of-living allowance indexed to the Seattle Consumer Price Index and capped at 3 percent annually (average final compensation is based on the greatest compensation during any consecutive 60 month period). Plan II retirements prior to age 65 are actuarially reduced.

Death and disability benefits are available in Plan I. TRS Plan I members receive the following additional lump sum death benefits: Retired members - $400 (if at least 10 years of membership service), Active members - $600. Members on temporary disability receive a temporary life annuity of $180 per month payable up to two years. After five years of service, members on a disability retirement receive an allowance based on salary and service to date of disability. Members prior to April 25, 1973 may elect a benefit based on the formula in effect at that time. There were no material changes in TRS benefit provisions for the fiscal year ended June 30, 1995.

Contributions Required and Contributions Made
Each biennium the Legislature establishes Plan I employer contribution rates and Plan II employer and employee contribution rates. Employee contribution rates for Plan I are established by statute at 6.0 percent. The employer and employee contribution rates for Plan II are developed by the Office of the State Actuary to fully fund TRS II. All employers are required to contribute at the level established by the Legislature. The methods used to determine the contribution requirements are established under state statute as per RCW 41.45.

The state's actuarially determined contribution as a percentage of employers' current-year covered payroll for the fiscal year ended June 30, 1995, was 11.77 percent for Plan I, of which 6.47 percent represents normal costs and 5.30 percent represents the UAAL. For Plan II, the rate was 11.77 percent, of which 6.47 percent represents normal costs and 5.30 percent represents the UAAL for Plan I. In addition to the 11.77 percent, which was developed from the 1994 Actuarial Valuation, there was an additional contribution of .12 percent for a temporary COLA. Thus, the total required contribution rate for both plans was increased to 11.89 percent. The state is responsible for funding basic education; based upon that funding the school districts make payments directly to the pension fund for pension liabilities incurred for their employees. The total contribution requirement to TRS for the fiscal year ended June 30, 1995, was $428.0 million which included $125.1 million for the UAAL. $280.6 million was required from employers and $147.4 million from employees. Total actual contributions were

$449.9 million for the system as a whole; of this amount, employer contributions were $302.7 million and employee contributions were $147.2 million.
The total contribution requirement for Washington State was $8.1 million; which included $2.4 million for the UAAL. $5.4 million (2.1 percent of the total current-year actuarially determined contribution requirement for all employers) was required from the state as an employer, and $2.7 million from employees. Total actual contributions of $8.5 million were made; of this amount, the state contributed $5.8 million and state employees $2.7 million.

Actual contribution rates (expressed as a percentage of employers' current-year covered payroll) at the close of Fiscal Year 1995 were as follows:

	PLAN I	PLAN II
Employee Rates	6.00 percent	6.46 percent
Employer Rates	12.83 percent	12.83 percent

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)

System Information
LEOFF was established in 1970 by the Legislature. Membership includes all full-time, fully compensated, local law enforcement officers and fire fighters. LEOFF is comprised solely of nonstate employees. Retirement benefits are vested after an employee completes five years of eligible service.

Plan I participants are eligible to retire with 5 years of service at the age of 50. The benefit per year of service is calculated as a percent of average final salary as follows: 5-10 years - 1.0 percent, 10-20 years - 1.5 percent, 20+ years - 2.0 percent. The average final salary is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months salary within the last 10 years of service. Retirement benefits are fully indexed to the Seattle Consumer Price Index.

Plan II participants are eligible to retire at the age of 50 with 20 years of service, or at the age of 55 with 5 years of service. Retirement benefits prior to the age of 55 are actuarially reduced. The benefit is 2 percent of average salary per year of service. The average salary is based on the highest consecutive 60 months. Retirement benefits are indexed to the Seattle Consumer Price Index with a cap of 3 percent annually.

Significant death and disability benefits are provided by Plan I. Death benefits for Plan I members on active duty consist of the following: (1) If eligible spouse, 50 percent of the average final salary, plus 5 percent of average final salary for each surviving child, with a limitation on the combined allowances of 60 percent of the average final salary; or (2) If no eligible spouse, 30 percent of average final salary for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of average final salary. Plan I members are eligible for disability benefits after a six month waiting period (during which the salary is paid by the employer). The amount of the allowance is 50 percent of the average final salary plus 5 percent for each child up to a maximum of 60 percent. Upon recovery from disability before the age of 50, a member is restored to service with full credit for service while disabled. Upon recovery after the age of 50, the benefit continues as the greater of the member's disability allowance or service retirement allowance. These benefit provisions were established by statute. During the 1995 legislative session no bills were passed that affected LEOFF contribution rates.

Contributions Required and Contributions Made
Plan I employers and employees are required to contribute at a rate of 6.0 percent, and the state is responsible for the balance of the funding. Employer and employee contribution rates for Plan II are developed by the Office of the State Actuary to fully fund LEOFF II. Plan II employers and employees are required to pay at the level established by the Legislature as per RCW 41.45. The methods used to determine the contribution requirements were established by statute.

The state's actuarially determined contribution rate as a percentage of employers' current-year covered payroll for the fiscal year ended June 30, 1995, was 12.93 percent for Plan I, of which 3.40 percent represents normal costs and 9.53 percent represents the UAAL. For Plan II, the rate was 12.93 percent, of which 3.40 percent represents normal costs and 9.53 percent represents the UAAL for Plan I. As an employer, the state makes no contributions to LEOFF. However, the Legislature has appropriated money from the General Fund to supplement the current service liability and to fund the prior service costs (UAAL) as per RCW 41.26.080(3). This is not a constitutional requirement and this liability could be returned to the employer by a change of statute.

The total contribution requirement for Fiscal Year 1995 was $158.4 million which includes $57.8 million for the UAAL; of this amount, $32.4 million was required from employers, $47.6 million from employees, and $78.4 million from the state General Fund (50 percent of total liability). Actual total contributions were $162.6 million;

of this amount other employers contributed $32.3 million, employees $47.3 million, and the state General Fund $83.0 million. Actual contribution rates (expressed as a percentage of employers' current-year covered payroll) at the close of Fiscal Year 1995 were as follows:

	PLAN I	PLAN II
Employer Rates	6.00 percent	5.05 percent
Employee Rates	6.00 percent	8.41 percent
State of Washington Rates	13.99 percent	13.99 percent

Washington State Patrol Retirement System (WSP)

System Information

The Washington State Patrol Retirement System was established by the Legislature in 1947. Any commissioned employee of the State Patrol is eligible to participate.

Members are eligible to retire at the age of 55 or after 25 years of service with a benefit of 2 percent of average final salary per year of service. The benefit is capped at 75 percent of average final salary. In addition, a 2 percent cost-of-living allowance is included. Retirement benefits are vested after an employee completes five years of eligible service.

Benefit provisions include death benefits, however, the system contains no disability benefits. The death benefit for a spouse of a member on active duty consists of 50 percent of average final salary, and 5 percent of average final salary for each surviving child, with a limitation on the combined allowance of 60 percent of average final salary. No significant changes were made in WSP benefit provisions for the fiscal year ended June 30, 1995.

Contributions Required and Contributions Made

The state's actuarially determined contribution rate (expressed as a percentage of the state's current-year covered payroll) for the fiscal year ended June 30, 1995 was 14.36 percent, of which 16.78 percent represents normal costs and (2.42) percent represents the UAAL. State statute (RCW 43.43) obligates employees to contribute at a fixed rate of 7.0 percent. Contribution rates for the state are established for a two year period on the basis of assets and liabilities as shown by actuarial valuation per RCW 41.45. The WSP actuarially determined contribution for the fiscal year ended June 30, 1995, was $9.1 million which included minus $1.0 million for the UAAL. Of this amount, $6.1 million was required from employers and $3.0 million from employees. Total actual contributions were $9.8 million; of this amount, $6.8 million (69 percent) was made by the employer and $3.0 million by the employee.

Washington State Patrol Retirement System Historical Trend Information

	Calendar Year		
	1994	1993	1992
Net assets available for benefits expressed as a percentage of the pension benefit obligation to State Patrol employees	107 %	113 %	111 %
Unfunded (assets in excess of) pension benefit obligation as a percentage of the State Patrol's annual covered payroll	(52.0) %	(90.0) %	(69.0) %
State contributions to the pension system as a percentage of the state's annual covered payroll in accordance with actuarially determined requirements	14.36 %	14.56 %	15.34 %

The Judicial Retirement System (JRS)

System Information

The Judicial Retirement System (JRS) was established by the Legislature in 1971. Membership includes judges elected or appointed to the Supreme Court, Court of Appeals, and Superior Courts on or after August 9, 1971. The system was capped on July 1, 1988, with new judges joining PERS II.

Any member who involuntarily terminates with 12 or more years of credited service and 15 years after beginning judicial service, or voluntarily terminates with 15 or more years of credited service, is vested and shall receive retirement benefits upon attaining the age of 60. Retirement benefits are 3 percent of the average final compensation for 10-15 years of service, and 3.5 percent for 15 or more years of service.

Death and disability benefits are also provided. Eligibility for death benefits while on active duty requires 10 or more years of service. A monthly benefit is provided which is equal to 50 percent of the benefit a member would have received if retired, or if greater, 25 percent of the average final compensation of the member. These benefits terminate with the death or remarriage of the recipient. If the member is retired, a 50 percent allowance is provided to the surviving spouse that has been married to the judge at least 3 years at the time of death. Benefits terminate on remarriage. For members with 10 or more years of service, a disability benefit of 50 percent of salary is provided. No significant changes were made in JRS benefit provisions for the fiscal year ended June 30, 1995.

Contributions Required and Contributions Made

The state's actuarially determined contribution rate (expressed as a percentage of the state's current-year covered payroll) for the fiscal year ended June 30, 1995 was 52.58 percent, of which 12.70 percent represents normal cost and 39.88 percent represents the UAAL. JRS retirement benefits are financed by 7.50 percent employee and 7.50 percent employer contributions of current-year covered payroll, and by state contributions which are made on a pay-as-you-go basis (RCW 2.10). The JRS actuarially determined total contribution for the fiscal year ended June 30, 1995 was $8.4 million; $.8 million was required from the employers, $.5 million from the employees, and $7.1 million (91 percent of total current-year actuarially determined contribution requirement for all employers) from the state. Total actual contributions received were $5.4 million for Fiscal Year 1995; employer contributions were $.5 million, employee contributions were $.5 million, and state General Fund contributions were $4.4 million.

The Volunteer Fire Fighters' Relief and Pension Fund (VFFRPF)

System Information

The Volunteer Fire Fighters' Relief and Pension Fund (VFFRPF) was created by the Legislature in 1945. Membership in the system requires volunteer service with a fire department of an electing municipality of Washington State. Members are vested after ten years of service.

After 25 years of active membership, members having reached the age of 65 and who have paid their annual retirement fee for 25 years, are entitled to receive a monthly benefit of $25 plus $8 per year of service. The maximum monthly benefit is $225. Reduced pensions are available for members under the age of 65 or with less than twenty-five years of service.

Death and active duty disability benefits are provided at no cost to the member. Death benefits in the line of duty consist of a lump sum of $2,000. Funeral and burial expenses are also paid in a lump sum of $2,000 for members on active duty. Members receiving disability benefits at the time of death shall be paid $500. Members on active duty shall receive disability payments of $1,650 per month for up to six months; thereafter, payments are reduced. Disabled members receive $825 per month, their spouse $165, and dependent children $70. No significant changes were made in VFFRPF benefit provisions for the fiscal year ended June 30, 1995. Benefit provisions for VFFRPF are established under the authority of RCW 41.24.

Contributions Required and Contributions Made

The VFFRPF is funded through member contributions of $30 per year, employer contributions of $30 per year, and 40 percent of the Fire Insurance Premium Tax, as per RCW 41.24. VFFRPF members earn no interest on contributions and may elect to withdraw their contributions upon termination. The VFFRPF is funded by employer contribution rates of $10 per person.

The state's VFFRPF actuarially determined contribution requirement was $35.47 per member plus $38.04 per fire fighter for disability and medical benefits. The VFFRPF actuarially determined total contribution for the fiscal year ended June 30, 1995 was $2.3 million; of this amount employers were required to contribute $.37 million, members $.37 million, and the state $1.58 million (68 percent of total liability). In addition, employers were required to contribute $.2 million in disability fees. Total actual contributions were $3.29 million; employer contributions were $.36 million, members $.36 million, and the state $2.37 million (40 percent of net fire insurance premium taxes); in addition, $.2 million in disability fees were paid by employers. Since this is a volunteer organization, benefits are paid based on years of service not salary.

Teachers' Insurance and Annuity Association/College Retirement Equity Fund (TIAA/CREF)

System Information

TIAA/CREF is privately operated and not administered by Washington State. TIAA/CREF covers higher education faculty and other positions as designated by each institution; participation was established under RCW 28B.10. The employee must commence participation within the first two years of employment. Once eligible to participate in this system, members are vested immediately.

TIAA/CREF benefits are payable upon termination at the member's option unless the participant is reemployed in another institution which participates in TIAA/CREF. Upon retirement, participant accumulations are used to purchase an annuity. The benefits are determined as follows: TIAA - accumulations are converted to a fixed guaranteed annuity payable for life. In addition to the guaranteed annuity, a dividend payment is declared each year depending on investment performance; CREF - at retirement the value of the fund is converted to a variable annuity. This means the annuity is not guaranteed but rises and falls with the value of equity investments.

Current-year covered payroll for TIAA/CREF employees was $608 million for the fiscal year ended June 30, 1995.

Contributions Required and Contributions Made
Employee contribution rates, which are based on age, range from 5 to 10 percent of salary. These rates are matched by the institution and sent to TIAA/CREF. The employer and employee obligations to contribute are established per RCW 28B.10. The contribution requirement for TIAA/CREF was $103 million. Actual employer and employee contributions were $51.5 million each, for a total of $103 million. These contribution amounts represent 8 percent of covered payroll for employers and employees.

Judicial Retirement Account (JRA)

System Information
The Judicial Retirement Account Plan (JRA) was established by the Legislature in 1988 and is administered by the state of Washington Administrator for the Courts, under the direction of the Board for Judicial Administration. Membership includes judges elected or appointed to the Supreme Court, Court of Appeals, and Superior Courts, and who are members of the PERS for their services as a judge. Vesting is full and immediate.

A JRA member who separates from judicial service for any reason is entitled to receive a lump sum distribution of the accumulated contributions. If a member dies, the amount of accumulated contributions standing to the member's credit at the time of the member's death shall be paid to such a person or persons having an insurable interest in the member's life, per written designation of the member.

Current-year covered payroll for JRA employees was $11.3 million for the fiscal year ended June 30, 1995.

Contributions Required and Contributions Made
Employee contributions equal 2.5 percent of salary; the state, as employer, matches this amount. Contributions are collected by the Administrator for the Courts. The employer and employee obligations to contribute were established per RCW 2.14. The contribution requirement for JRA was $566,360. Actual employer and employee contributions were $283,180 each, for a total of $566,360.

Note 18 - Deferred Compensation Plan

The state of Washington offers its employees, and employees of those political subdivisions that elect to participate, a deferred compensation plan pursuant to RCW 41.04.250, in accordance with Internal Revenue Code Section 457. Under the plan, eligible employees elect to defer a portion of their salary until future time periods. The deferred compensation is not available to employees until termination, retirement, disability, death, or unforeseeable financial emergency.

Compensation deferred under the plan and all income attributable to the plan are solely the property of the state. The state's rights to this property are subject only to the claim of the state's general creditors until paid to the employee or other beneficiary and are not restricted to the benefit provisions under the plan. Political subdivisions electing to participate retain separate property rights.

The rights of state employees under the plan are equal to those of general creditors of the state in an amount equal to the fair market value of the deferred account for each participant.

The Deferred Compensation Committee has fiduciary responsibility for plan assets and has the duty of due care that would be required of an ordinary prudent investor. It is highly unlikely that the state will be required to use the assets to satisfy claims of general creditors in the future.

Of the $585.4 million in investments at June 30, 1995, $539.9 million was applicable to the state, $42.7 million represents assets of the other jurisdictions participating in the plan, and $2.8 million represents assets of the Judicial Retirement Account.

Deferred Compensation Plan investments along with the corresponding liability, are recorded at fair market value in the Deferred Compensation Agency Fund.

Note 19 - Segment Information - Enterprise Funds

The state of Washington operates enterprise funds which are intended to be self-supported through fees charged to the public, or where a periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Enterprise fund activities operated by the state include the following:

Liquor Fund
The Liquor Fund is used to account for the administration and operation of state liquor stores, warehouses, and the distribution of net proceeds.

Workers' Compensation Fund
The Workers' Compensation Fund is used to account for the workers' compensation program which provides medical, time-loss, and disability benefit payments to qualifying individuals sustaining work-related injuries.

Convention and Trade Fund
The Convention and Trade Fund is used to promote and operate the State Convention and Trade Center.

Lottery Fund
The Lottery Fund is used to account for lottery ticket revenues, administrative and operating expenses of the Lottery Commission, and the distribution of revenue to the General Fund.

State Ferry Fund
The State Ferry Fund is used to account for all revenues and payments of all operating costs of the state ferry system.

Student Services Fund
The Student Services Fund is used by colleges and universities principally for bookstore, cafeteria, parking, student housing, and food service activities.

All Other Enterprise Funds
Services and fees charged by the various departments including: Department of Social and Health Services and the Department of Corrections.

The table below reflects in a summarized format the significant enterprise fund activities which have occurred during the fiscal year ended June 30, 1995. Interfund transactions have not been eliminated for purposes of this analysis (expressed in thousands):

	Liquor Fund	Workers' Compensation Fund	Convention and Trade Fund	Lottery Fund	State Ferry Fund	Student Services Fund	All Other Enterprise Funds	**Total Enterprise Funds**
Operating Revenues	$ 76,956	$ 1,441,154	$ 6,749	$ 400,927	$ 78,381	$ 540,163	$ 11,799	$ 2,556,129
Depreciation and Amortization	1,097	4,719	4,218	404	27,825	22,776	3,122	64,161
Operating Income (Loss)	21,054	(224,290)	(9,331)	136,373	(59,378)	43,731	(8,499)	(100,340)
Operating Interfund Transfers (Net)	(28,865)	(1,395)	(4)	(133,736)	31,491	433	5,859	(126,217)
Tax Revenue	21,665	-	18,999	-	-	-	-	40,664
Net Income (Loss)	1,110	(100,958)	472	2,922	(27,284)	56,773	(895)	(67,860)
Current Capital Contribution (Return)	-	-	-	-	107,802	5	-	107,807
Net Working Capital	1,533	(1,079,320)	(36,913)	(31,541)	(9,823)	217,126	42,790	(896,148)
Change in Fixed Assets	86	2,766	(884)	265	80,159	41,997	3,553	127,942
Total Assets	37,375	6,708,701	197,383	445,415	478,433	863,597	59,826	8,790,730
Bonds and Other Long-Term Liabilities Payable from Operating Revenues	293	9,094,744	161,055	372,964	-	208,959	2,211	9,840,226
Total Equity	4,446	(3,906,291)	(4,646)	8,834	453,019	551,312	50,822	(2,842,504)

Note 20 - Condensed Financial Information - Component Units

The three proprietary type component units of the state of Washington are financing authorities. They issue nonrecourse revenue bonds to provide low cost capital financing for programs deemed to be in the public interest without using public funds or lending the credit of the state. The component units of the state are as follows:

Housing Finance
The Washington State Housing Finance Commission makes funds available to help provide housing throughout the state and to finance or refinance nursing homes and capital facilities owned and operated by nonprofit corporations.

Higher Education Facilities
The Washington Higher Education Facilities Authority provides funding to qualified, nonprofit higher education institutions in the state.

Health Care Facilities
The Washington Health Care Facilities Authority makes funds available to qualified, nonprofit health care facilities in the state.

The tables below present the latest financial information available for the component units (expressed in thousands):

Balance Sheets June 30, 1994	Housing Finance	Higher Education Facilities	Health Care Facilities	**Totals**
Assets:				
Current assets	$ 21,864	$ 567	$ 2,610	$ 25,041
Other nonfixed assets	431	-	-	431
Fixed assets, net	-	-	14	14
Total Assets	$ 22,295	$ 567	$ 2,624	$ 25,486
Liabilities:				
Current liabilities	$ 757	$ 18	$ 36	$ 811
Long-term liabilities	-	-	34	34
Total Liabilities	757	18	70	845
Fund Equity:				
Retained Earnings	21,538	549	2,554	24,641
Total Fund Equity	21,538	549	2,554	24,641
Total Liabilities and Fund Equity	$ 22,295	$ 567	$ 2,624	$ 25,486

Statements of Revenues, Expenses and Changes in Fund Equity For the Fiscal Year Ended June 30, 1994	Housing Finance	Higher Education Facilities	Health Care Facilities	**Totals**
Operating revenues	$ 6,514	$ 145	$ 703	$ 7,362
Operating expenses	2,754	33	479	3,266
Operating income	3,760	112	224	4,096
Nonoperating revenue				
Interest revenue	1,055	17	134	1,206
Net income	4,815	129	358	5,302
Fund equity, July 1	16,723	420	2,196	19,339
Fund Equity, June 30	$ 21,538	$ 549	$ 2,554	$ 24,641

Note 21 - Commitments and Contingencies

A. Construction and Other Commitments

Outstanding commitments related to state facility construction, improvement, and/or renovation totaled $1.1 billion at June 30, 1995.

B. Summary of Significant Litigation

The state and its agencies are parties to numerous routine legal proceedings which normally occur in governmental operations. The reoccurring pattern of such litigation is not likely to have a material adverse impact on the state's revenues or expenditures.

C. Federal Assistance

The state has received federal financial assistance for specific purposes that are generally subject to review or audit by the grantor agencies. Entitlement to this assistance is generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of assistance for allowable purposes. Any disallowance resulting from a review or audit may become a liability of the state. The state does estimate and recognize a claims and judgments liability for disallowances when determined by the grantor agency or for probable disallowances based on experience pertaining to these grants; however these recognized liabilities and any unrecognized disallowances are considered immaterial to the state's overall financial condition.

D. Arbitrage Rebate

Rebatable arbitrage is defined by the Internal Revenue Service Code Section 148 as earnings on investments purchased from the gross proceeds of a bond issue that are in excess of the amount that would have been earned if the investments were invested at a yield equal to the yield on the bond issue. The rebatable arbitrage must be paid to the federal government. State agencies and universities responsible for investments from bond proceeds carefully monitor their investments to restrict earnings to a yield less than the bond issue, and therefore limit any state arbitrage liability. The state estimates that rebatable arbitrage liability, if any, will be immaterial to its overall financial condition.

Note 22 - Subsequent Events

Bond Issues

In July 1995, the state issued $150 million in Various Purpose General Obligation Bonds, Series 1995A.

In September 1995, the state issued $8.3 million Certificates of Participation (COPs). Proceeds of the COPs, along with a contribution from the Convention and Trade Fund, were used to refinance a parking garage revenue note.

In October 1995, the state issued $19.1 million in General Obligation College Savings Zero-Coupon Bonds, Series 1995.